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Builders Merchant Building Index



Q4 2016

CIM

MARKETING
EXCELLENCE
AWARDS 2017



FINALIST
BEST USE OF DATA AND INSIGHT - LARGE

Building the Industry & Building Brands from Knowledge



Contents

Click links to visit pages:	Page
Introduction	5
Overview and Insights, Ricky Coombes Channel Account Manager GfK	6
Merchants' View, John Newcomb Managing Director BMF	7
Monthly data:	
Monthly BMBI indices, by category	8
Monthly index chart, unadjusted and adjusted for trading day differences	9
December index chart, by category	10
Monthly year-on-year chart, unadjusted and adjusted for trading day differences	11
December year-on-year chart, by category	12
December v November chart, by category	13
Quarterly data	
Quarterly BMBI indices, by category	14
Quarter 4 index chart, unadjusted and adjusted for trading day differences	15
Q4 index chart, by category	16
Quarterly indices, by categories	17
Quarter 4 year-on-year chart, unadjusted and adjusted for trading day differences	18
Quarter 4 year-on-year chart, by category	19
Quarter 4 v Quarter 3 chart, by category	20
Full Year data:	
Full year 2016 v 2015 chart, by category	21

Continued over the page...

Click links above and overleaf to visit pages.

The 'Contents' link below brings you back to this page.

Contents

Continued

Expert Panel:	Page		Page
Steve Halford, Crystal Direct	22	Methodology	45 - 47
John Duffin, Keylite	23	GfK Insights	48 - 54
Nigel Cox, Timbmet	24	GfK Macro-Economic Factors	55 - 61
Steve Durdant-Hollamby, AWMS	25	Contacts	62
Andrew Simpson, Hanson	26		
Andy Williamson, IKO	27		
Derrick McFarland, Keystone Lintels	28		
John Sinfield, Knauf Insulation	29		
Mike Beard, Encon Insulation	30		
Tony France, Ibstock	31		
Paul Rivett, Heatrae Sadia	32		
Monthly and Quarterly Category Charts:			
Timber & Joinery Products	33		
Heavy Building Materials	34		
Decorating	35		
Tools	36		
Workwear & Safetywear	37		
Ironmongery	38		
Landscaping	39		
Plumbing, Heating & Electrical	40		
Renewables & Water Saving	41		
Kitchens & Bathrooms	42		
Miscellaneous	43		
Services	44		

Introduction

John Newcomb, Managing Director BMF



This Builders Merchant Building Index (BMBI) report contains data from GfK's ground-breaking Builders Merchants Panel, which analyses data from over 80% of generalist builders' merchants' sales throughout Great Britain. GfK's Builders Merchant Point of Sale Tracking Data is setting a new standard to give us a reliable market picture. Unlike data from sources based on estimates, or sales from suppliers to the supply chain, this up-to-date data is based on actual sales from merchants to builders and other trades.

Trend data in the BMBI is indexed on the 12 month period July 2014 to June 2015. The monthly series tracks what is happening in the market month by month and includes an in-depth review every quarter. This trend series gives our industry access to far more accurate and comprehensive data than that available to other construction sectors.

We recognise the importance of sharing this data. In this spirit, MRA Marketing produces the Builders Merchant Building Index to communicate to the wider market as the voice of the industry as well as the voice of individual Expert Brands: Crystal Direct, Keylite Roof Windows, Timbmet, Alumasc Water Management Solutions, Hanson Cement, IKO PLC, Keystone Lintels, Knauf Insulation, Encon Insulation, Ibstock and Heatrae Sadia, providing valuable commentary on market trends and influences.

This report brings 2016 to a close with a new Overview from GfK's Ricky Coombes and my new quarterly 'Merchants' View'.

GfK insights go deeper than the category sectors contained in this document. They can trace product group performance and track features that are relevant to you. GfK can also produce robust like-for-like market comparability tailored to the requirements of an individual business. As more merchants join to submit their monthly sales-out data the quality of this information can only become more extensive and rigorous. Merchants or suppliers who are interested in getting involved should contact Ricky Coombes at Ricky.Coombes@gfk.com

The BMBI website enables you to compare Landscaping with Heavy Building Materials, or Kitchens with Timber on our interactive charts. Download the latest report, read the news or search through comments or blogs at www.bmbi.co.uk. Follow us and the Experts [@theBMBI](https://twitter.com/theBMBI).

Overview and Insights

Ricky Coombes, Channel Account Manager



A strong finish to 2016 cements a great year of growth for the Generalist Builders Merchants.

2016 was a successful year for generalist merchants, with revenues of over £5.44bn¹ and sales value growth of 5.2% on the previous year. A strong final quarter's performance (up 5.5% on the previous year) contributed to the overall success of 2016. A warmer, drier Quarter 4 extended the season for external works impacting strong sales performance within Landscaping and Heavy Building Materials categories, up 10.3% and 7.1% respectively on the same quarter last year.

We get a greater appreciation for merchants' overall 2016 performance when compared to the larger durables market. Measured by GfK at £35.4bn pa, it grew only 2% in 2016². However, dig deeper and it was all driven by online sales as traditional brick and mortar sales declined across the year, highlighting the importance to merchants for developing their online strategy.

Retail may not be a significant threat to trade sales now but it's worth keeping an eye on the impact of Bunnings who will be targeting trade customers. The DIY/Gardening sector increased just 1%² in 2016, but their sales of building and trade related products was up 3.1% year-on-year³.

Turning back to merchants, Heavy Building Materials, the most valuable category, performed in line with the total channel. It grew 5.8% on 2015, driven by several key sub-categories, such as Roofing Products, Lintels and Plaster/Plasterboards. A drier and slightly warmer 2016 contributed to another stand-out performing category as Landscaping, the third biggest turnover category, grew 9.4% year-on-year.

If, as expected, inflation increases in the UK, with uncertainty around the impact of Brexit and other global economic factors, consumer confidence will be a good indicator of potential future spend on property and home improvements which affect RMI.

Consumer Confidence⁴ at the end of 2016 was at the same level as post-recession 2014, propped up by consumers' positive outlook on their own personal financial situation. Even though they expect price increases in 2017, they've yet to be felt, possibly supporting the current higher levels of confidence.

1 GfK's Total Category Report (TCR), based on live data from a Leaderpanel.

2 GfK's Market-i (Dec-16)

3 GfK's Total Store Report (Dec-16)

4 GfK Consumer Confidence Barometer (Dec-16)

“A strong final quarter's performance (up 5.5% on the previous year) contributed to the overall success of 2016.”

Merchants' View

John Newcomb, Managing Director BMF



“Despite fears around the Brexit vote mid year, another strong set of results for the final quarter of the year is certainly encouraging. In addition to GfK’s national data in the BMBI report, the BMF’s own Sales Indicators confirm that the final quarter of 2016 wrapped up three years of growth in the sector.

What all of our members want to know now is, will this trend continue into 2017? The initial indications are largely positive.

The BMF’s Sales Indicators enable us to study sales variances at a regional level. Some of the highest percentage increases are occurring outside London and the South East, which are normally considered the busiest areas.

The latest forecasts from Construction Products Association (CPA) expect house building to remain a key source of output growth with private house building growing at 2% a year between 2017 and 2019 as developers take advantage of rising house prices in an undersupplied market. Meanwhile those staying put and extending their current home to meet changing family needs will drive the home improvement market.

We also found a largely optimistic sentiment in the first post-Brexit State of Trade survey of BMF members, with the majority forecasting further growth in Q1 2017. Against this, however, respondents cited economic uncertainty as the largest expected constraint on sales over the next 12 months. Uncertain future demand also featured as a likely constraint, and both were named as factors that may affect future investment.

Rising prices may prove another potential constraint to growth. The majority of participants in our State of Trade survey reported an increase in the price of the goods they sell during Q4 2016. While in the CPA’s Construction Trade Survey Q4 78% of heavy side manufacturers and 88% of light side manufacturers reported a rise in raw material prices.

No surprise then that “favourable trade deals with the EU” was ranked by BMF members as the highest priority by far when asked which single issue the government should negotiate hardest to keep in EU negotiations.

Overall we remain confident, but there are issues that the industry will need to find ways to navigate during 2017. A strong trade association, like the BMF is vitally important as we can help steer members through any uncertain times ahead.

“We also found a largely optimistic sentiment in the first post-Brexit State of Trade survey of BMF members, with the majority forecasting further growth in Q1 2017.”

Monthly: Index and Categories

July 2015 – December 2016

(Indexed on monthly average, July 2014 – June 2015)

VALUE EX VAT £	Index	2015						2016											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total Builders Merchants	100	115.4	100.5	110.3	110.9	101.3	74.0	88.2	101.3	110.0	113.6	111.4	115.7	111.1	113.7	113.8	112.3	113.6	77.1
Timber & Joinery Products	100	113.8	100.4	110.6	112.1	102.9	74.7	91.3	101.6	107.1	108.9	106.0	112.1	107.8	112.2	113.3	112.8	113.7	76.1
Heavy Building Materials	100	115.6	100.3	110.8	111.1	100.2	72.2	87.1	100.8	110.1	114.3	111.7	116.2	111.9	114.4	114.6	113.4	114.1	77.0
Decorating	100	114.8	104.6	111.9	112.7	103.2	78.4	90.9	101.3	106.6	107.5	105.4	108.1	107.8	112.5	109.8	108.3	110.4	76.3
Tools	100	107.9	94.4	105.1	105.7	103.7	75.9	89.6	99.7	104.1	106.9	99.8	104.0	101.5	102.4	104.6	106.5	111.3	74.8
Workwear & Safetywear	100	105.9	98.0	120.1	119.4	119.6	75.7	112.6	106.5	105.5	96.3	96.5	107.6	98.5	98.6	101.0	110.9	133.2	72.6
Ironmongery	100	114.1	101.5	111.7	112.3	108.1	84.3	100.5	108.9	113.0	112.8	110.9	112.8	111.0	115.8	119.8	118.0	119.9	84.6
Landscaping	100	132.4	108.4	107.0	101.7	83.2	59.0	65.2	88.9	115.7	137.7	144.2	144.7	132.0	129.2	119.9	110.2	97.2	62.4
Plumbing, Heating & Electrical	100	107.3	93.6	111.4	119.1	118.3	89.6	106.3	114.6	115.2	110.8	101.4	103.3	100.5	103.6	111.7	116.0	132.4	94.0
Renewables & Water Saving	100	75.7	67.7	104.0	99.6	95.9	76.0	78.1	71.8	72.5	67.1	64.8	75.5	63.7	63.1	72.8	61.2	73.4	42.4
Kitchens & Bathrooms	100	112.4	97.0	110.3	109.6	108.6	77.5	91.6	109.0	110.5	106.7	98.0	107.6	101.7	105.3	111.4	109.4	121.7	83.8
Miscellaneous	100	106.3	96.6	107.1	110.1	103.3	83.7	104.0	107.4	112.9	113.1	107.4	113.3	115.3	114.5	115.7	113.6	122.2	92.6
Services	100	112.7	102.5	108.4	111.4	102.4	83.1	86.2	102.3	114.6	111.3	116.7	116.1	115.5	115.2	111.1	108.3	107.1	81.3


 Source: GfK's
 Builders Merchants
 Total Category Report
 July 2015 to December 2016

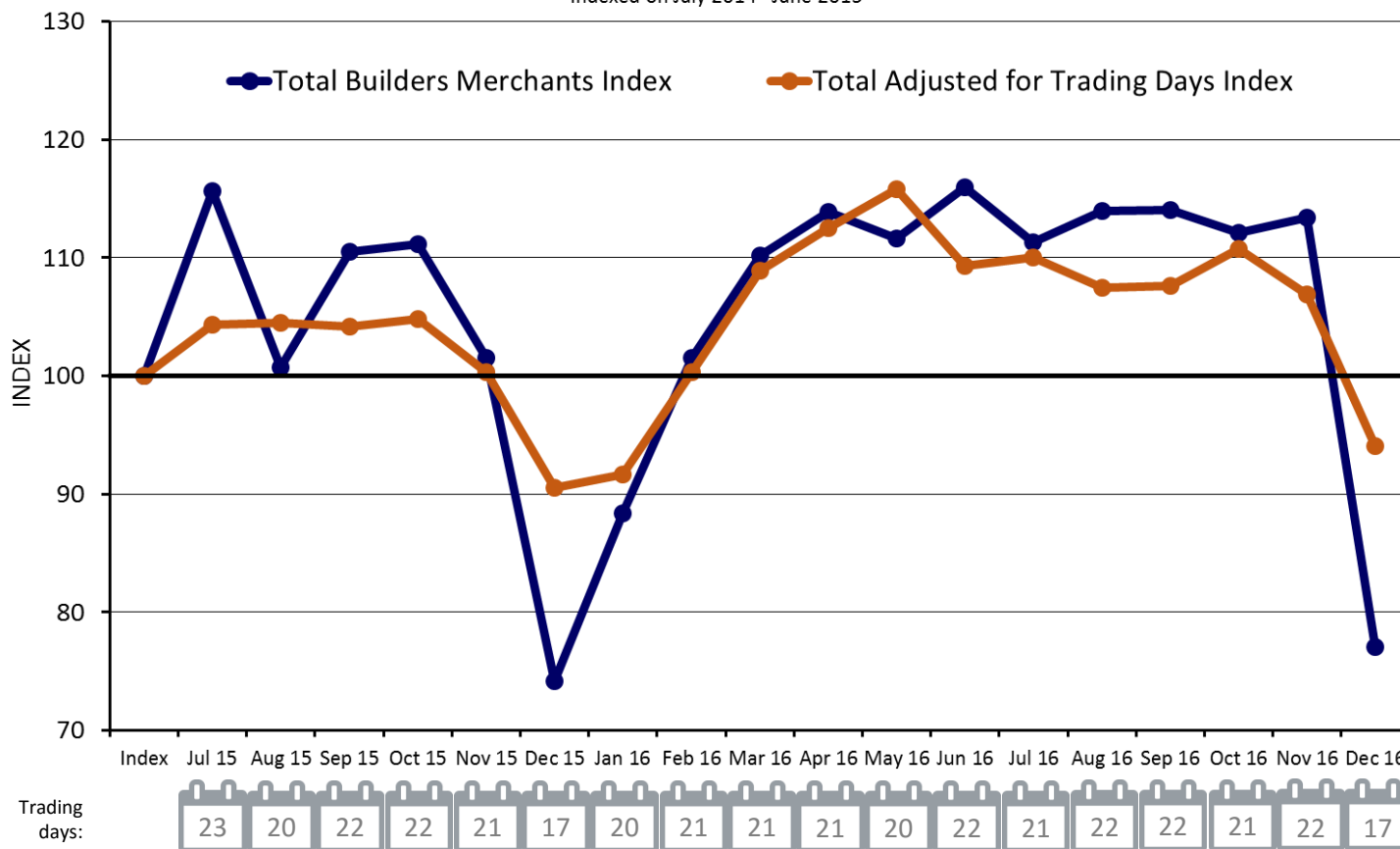
Monthly Index

Adjusted for Trading Days



Total Builders Merchants Index v Total Adjusted for Trading Days Index

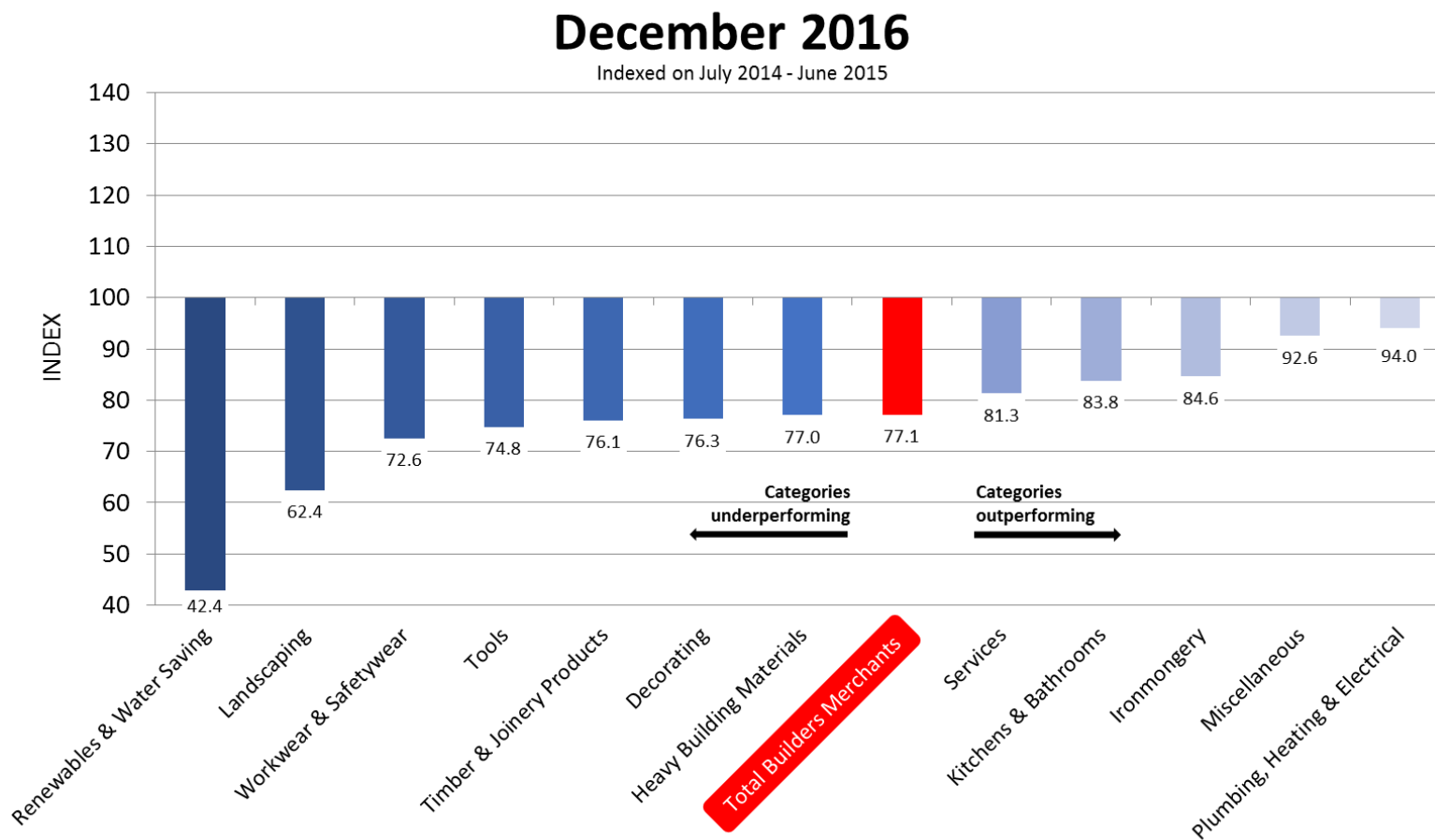
Indexed on July 2014 - June 2015



Source: GfK's Builders Merchants Total Category Report July 2015 to December 2016

Monthly: Index and Categories

December 2016 index



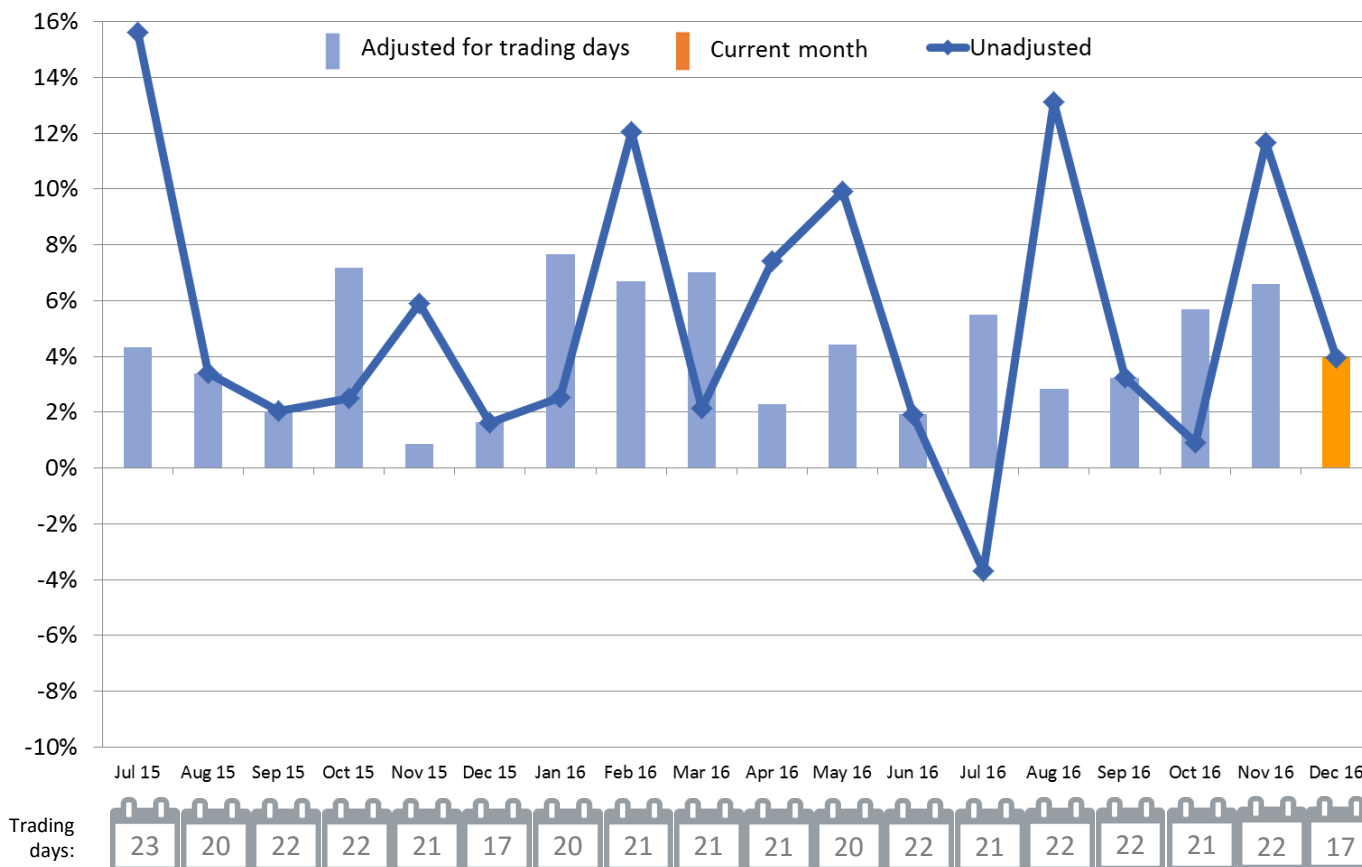
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Monthly Sales

Adjusted and Unadjusted for Trading Days



Monthly: Year on Year

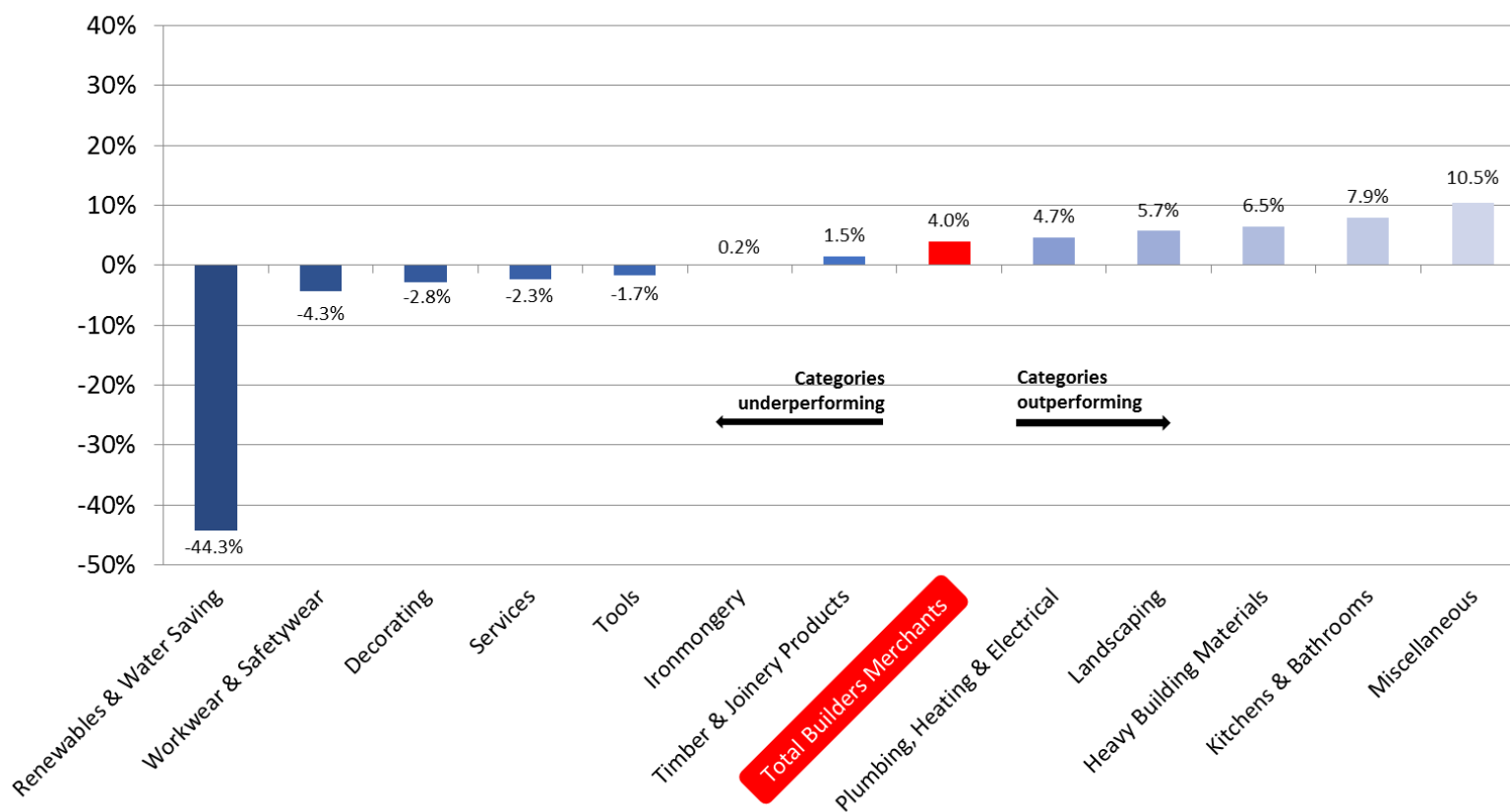


Source: GfK's Builders Merchants Total Category Report July 2015 to December 2016

Monthly: this year v last year

December 2016 sales

December 2016 v December 2015

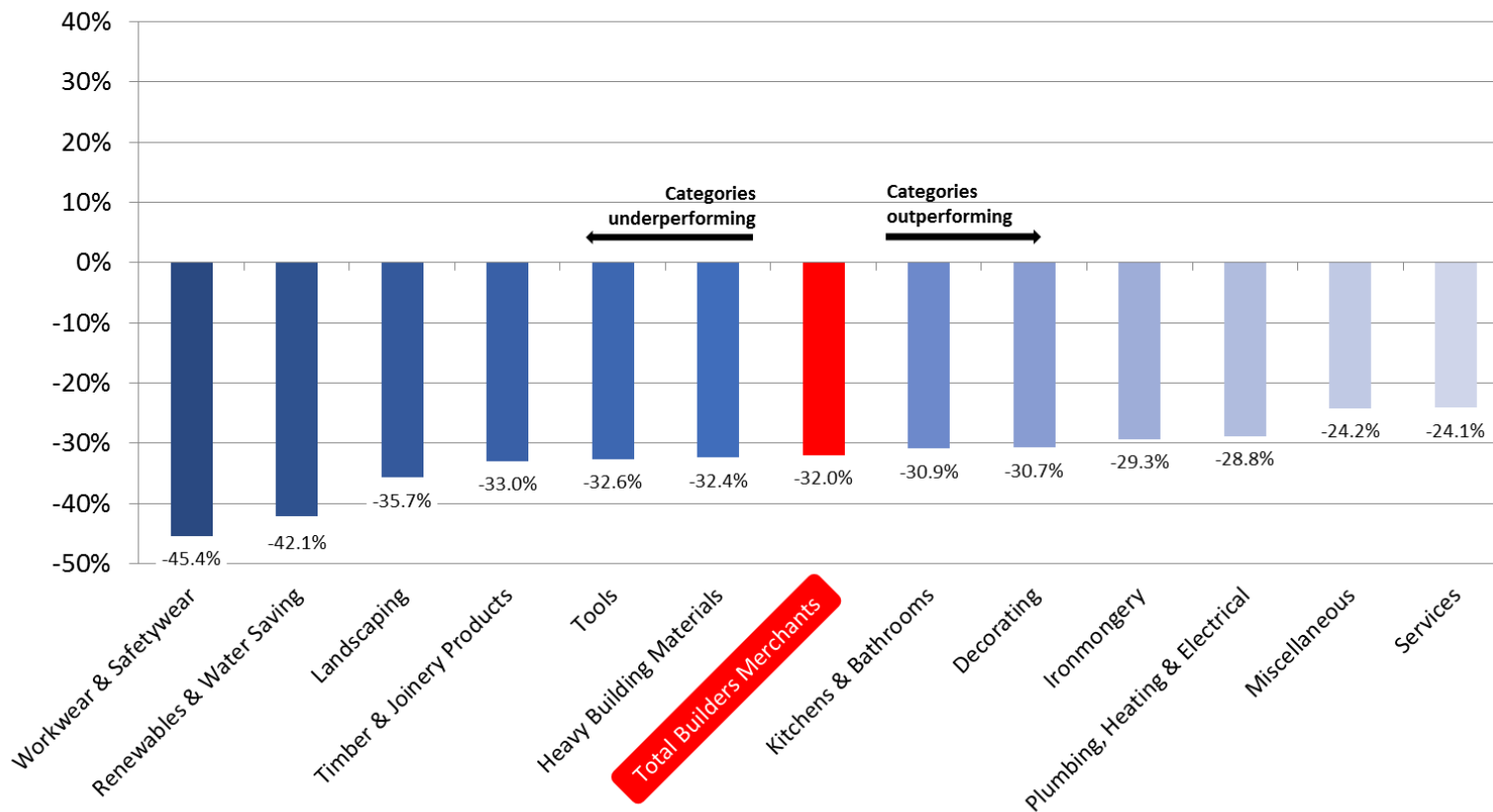


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Monthly: this month v last month

December 2016 sales

December 2016 v November 2016



Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly: Index and Categories

Quarterly (Indexed on July 2014 to June 2015)

VALUE EX VAT £	Index	Q3, 2015	Q4, 2015	Q1, 2016	Q2, 2016	Q3, 2016	Q4, 2016
Total Builders Merchants	100	108.7	95.4	99.8	113.6	112.9	100.9
Timber & Joinery Products	100	108.3	96.6	100.0	109.0	111.1	100.7
Heavy Building Materials	100	108.9	94.5	99.3	114.1	113.6	101.4
Decorating	100	110.4	98.1	99.6	107.0	110.0	98.2
Tools	100	102.5	95.1	97.8	103.5	102.8	97.3
Workwear & Safetywear	100	108.0	104.9	108.2	100.1	99.4	105.5
Ironmongery	100	109.1	101.6	107.5	112.2	115.5	107.4
Landscaping	100	115.9	81.3	89.9	142.2	127.0	89.8
Plumbing, Heating & Electrical	100	104.1	109.0	112.0	105.2	105.3	113.9
Renewables & Water Saving	100	82.5	90.5	74.1	69.1	66.5	59.0
Kitchens & Bathrooms	100	106.6	98.5	103.7	104.1	106.1	104.7
Miscellaneous	100	103.4	99.0	108.1	111.3	115.1	109.4
Services	100	107.9	99.0	101.0	114.7	113.9	98.9



Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

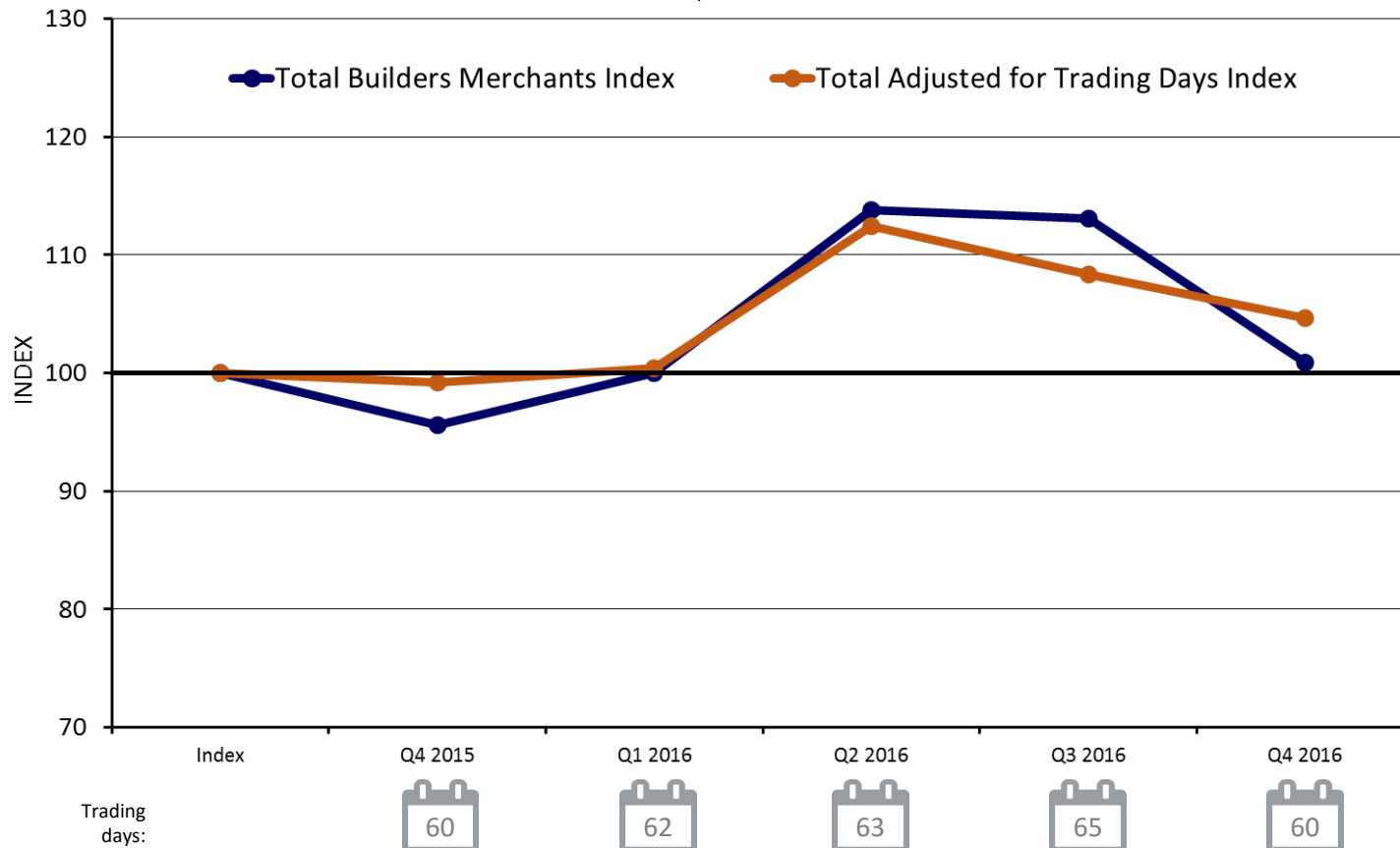
Quarterly Index

Adjusted and Unadjusted for Trading Days



Total Builders Merchants Index v Total Adjusted for Trading Days Index

Indexed on July 2014 - June 2015



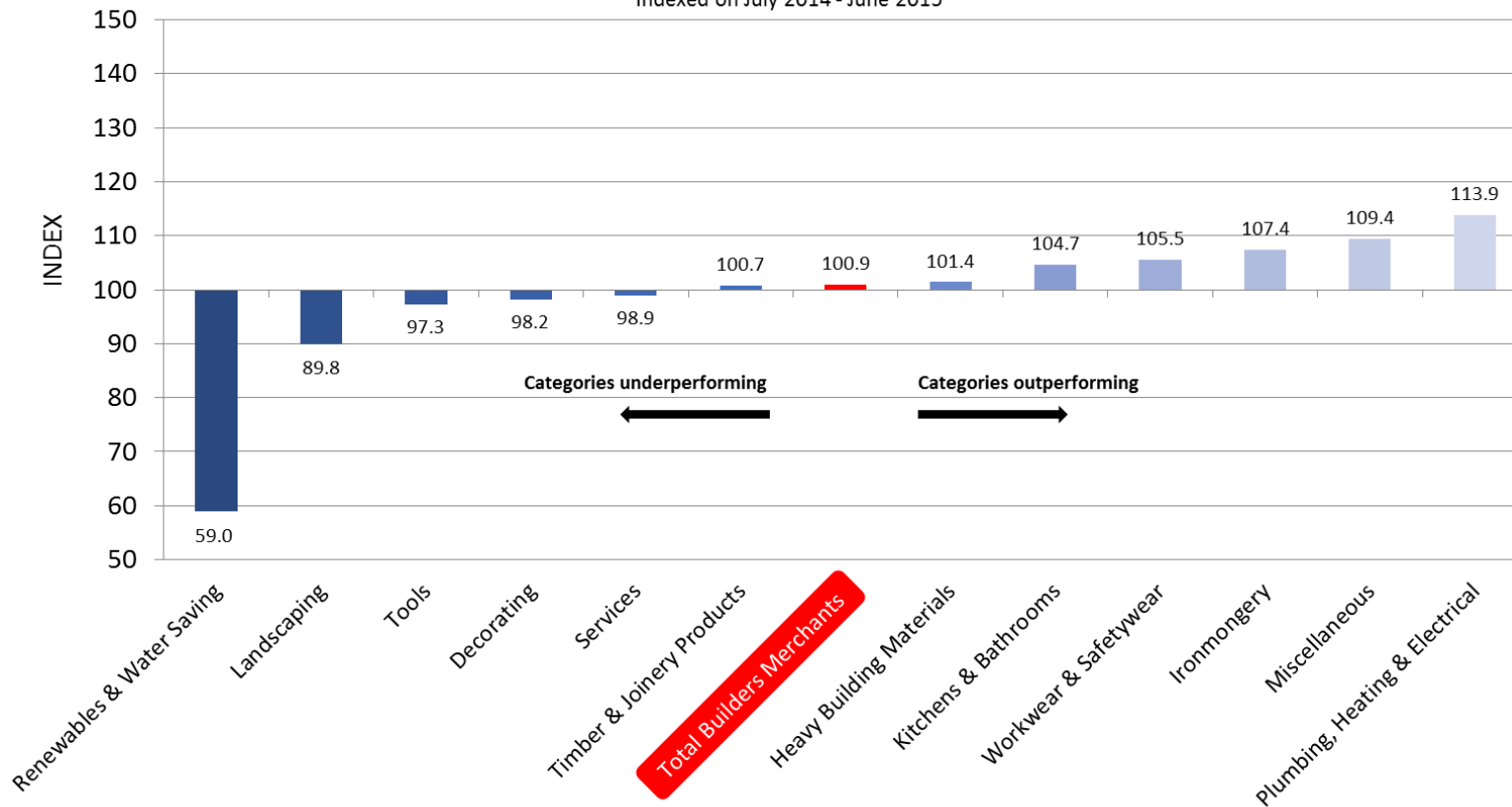
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly: Index and Categories

Q4 2016 index

Quarter 4 2016

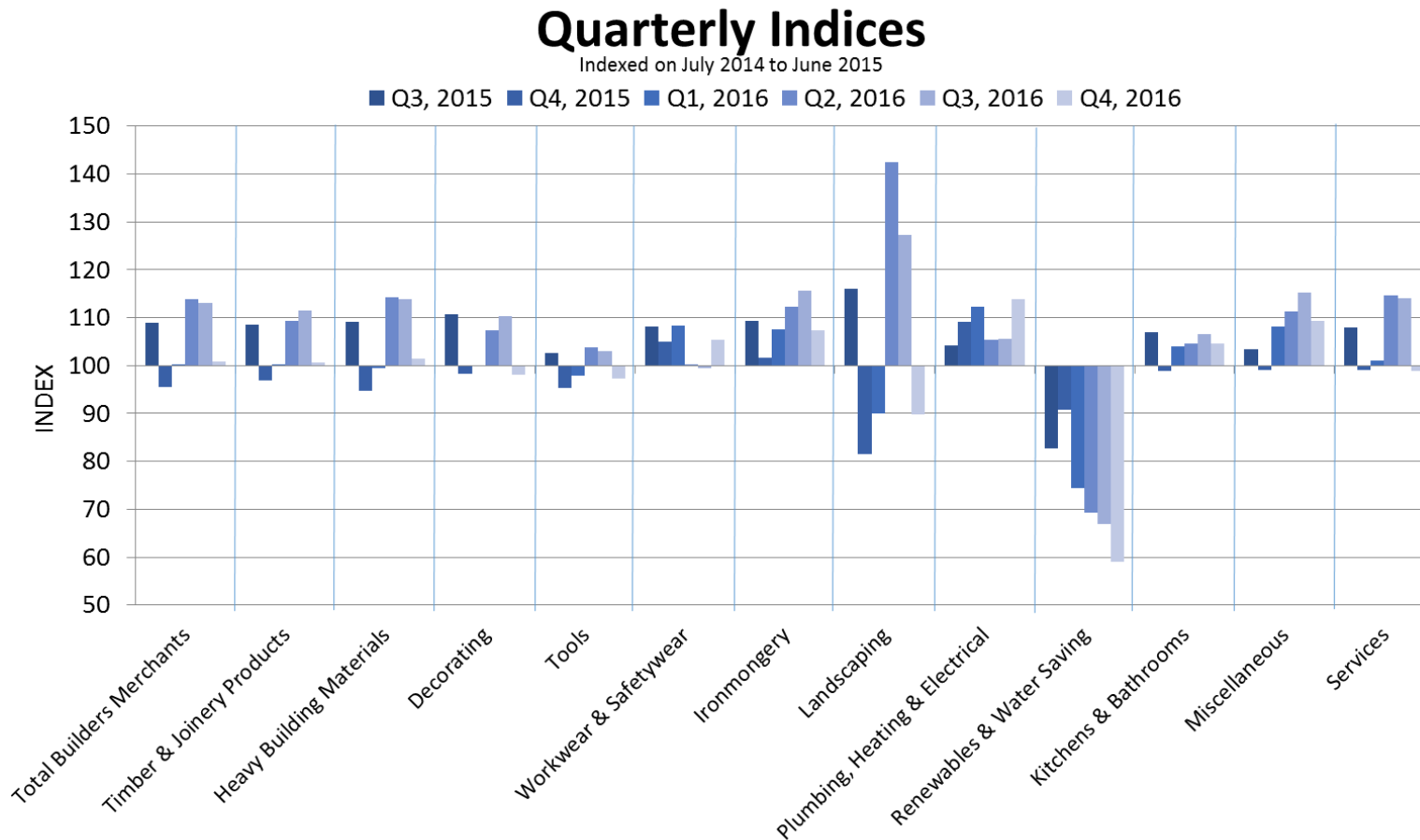
Indexed on July 2014 - June 2015



 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly: Indices and Categories

Quarterly indices



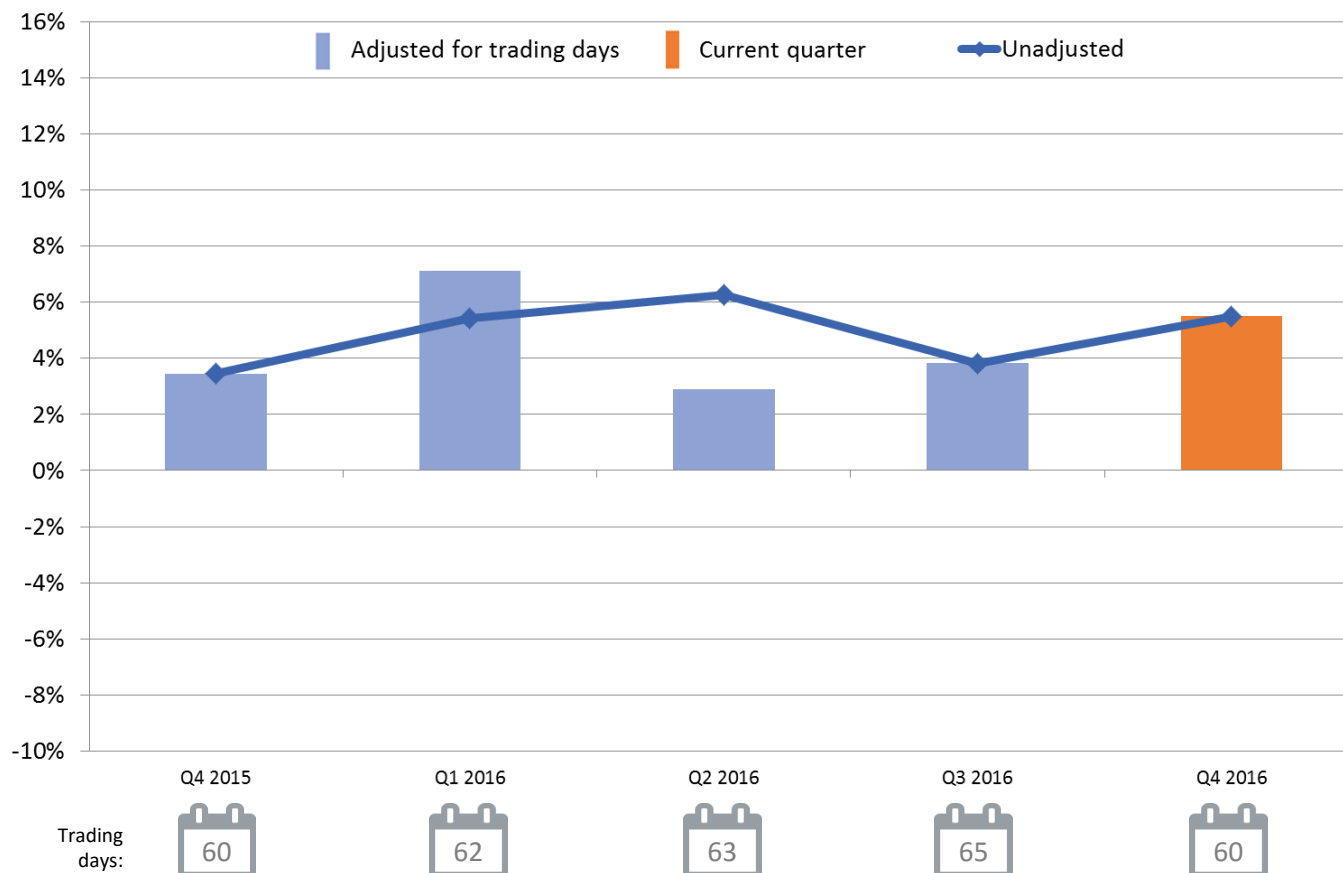

Source: GfK's
 Builders Merchants
 Total Category Report
 July 2015 to December 2016

Quarterly Sales

Adjusted and Unadjusted for Trading Days



Quarterly: Year on Year

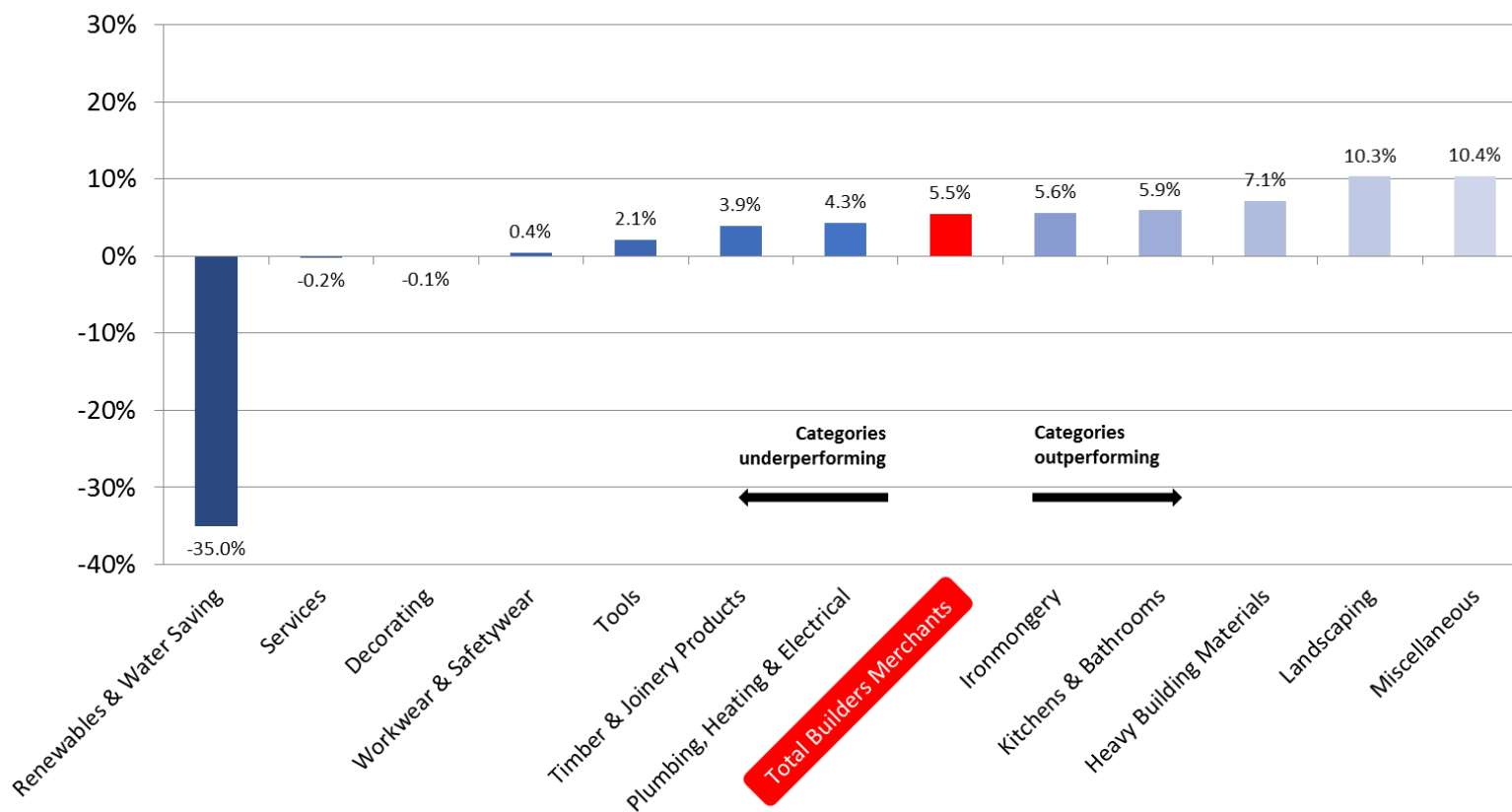


 Source: GfK's Builders Merchants Total Category Report July 2015 to December 2016

Quarterly: this year v last year

Q4 2016 sales

Quarter 4 2016 v Quarter 4 2015

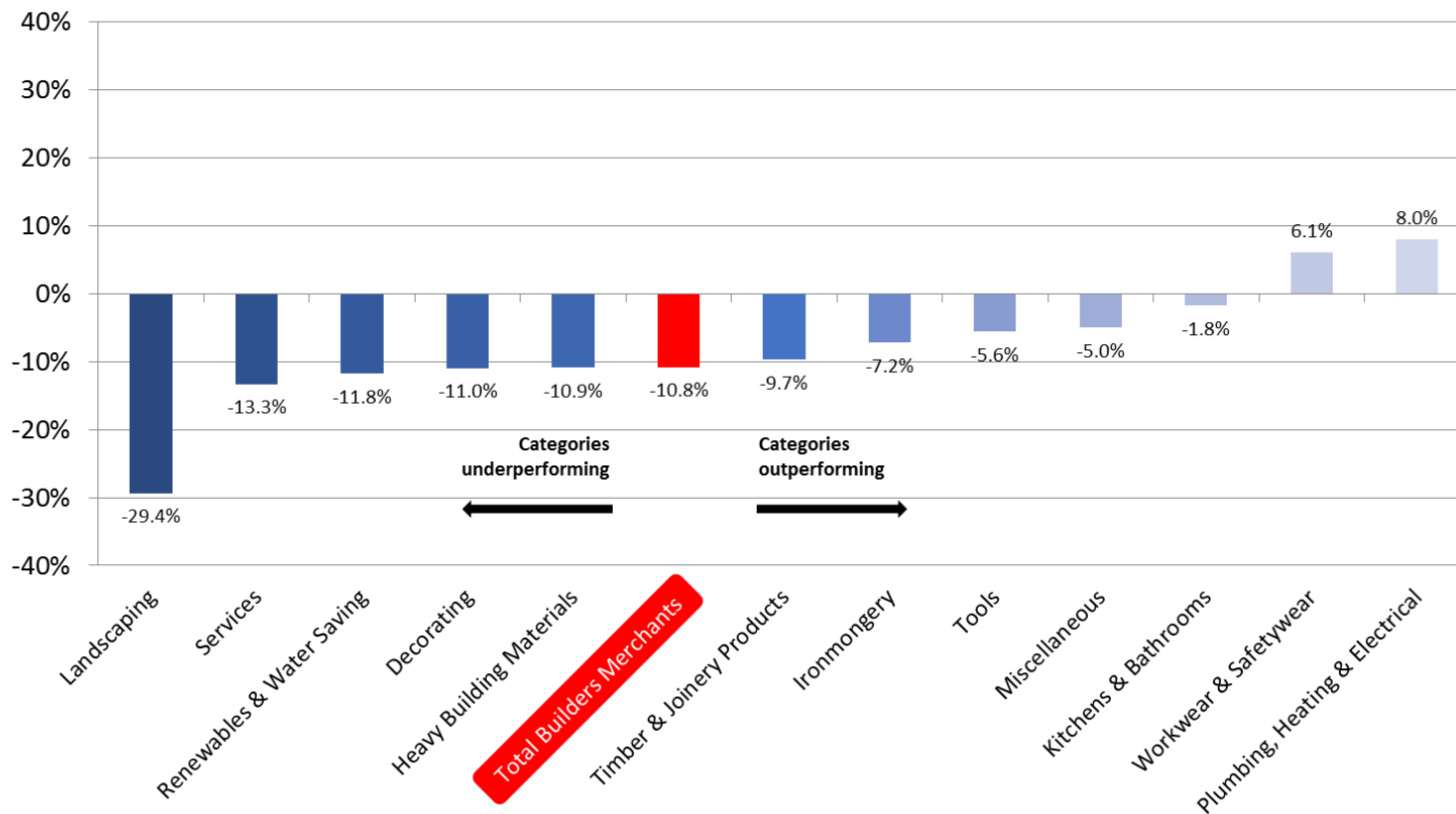


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly: quarter on quarter

Q4 2016 sales

Quarter 4 2016 v Quarter 3 2016

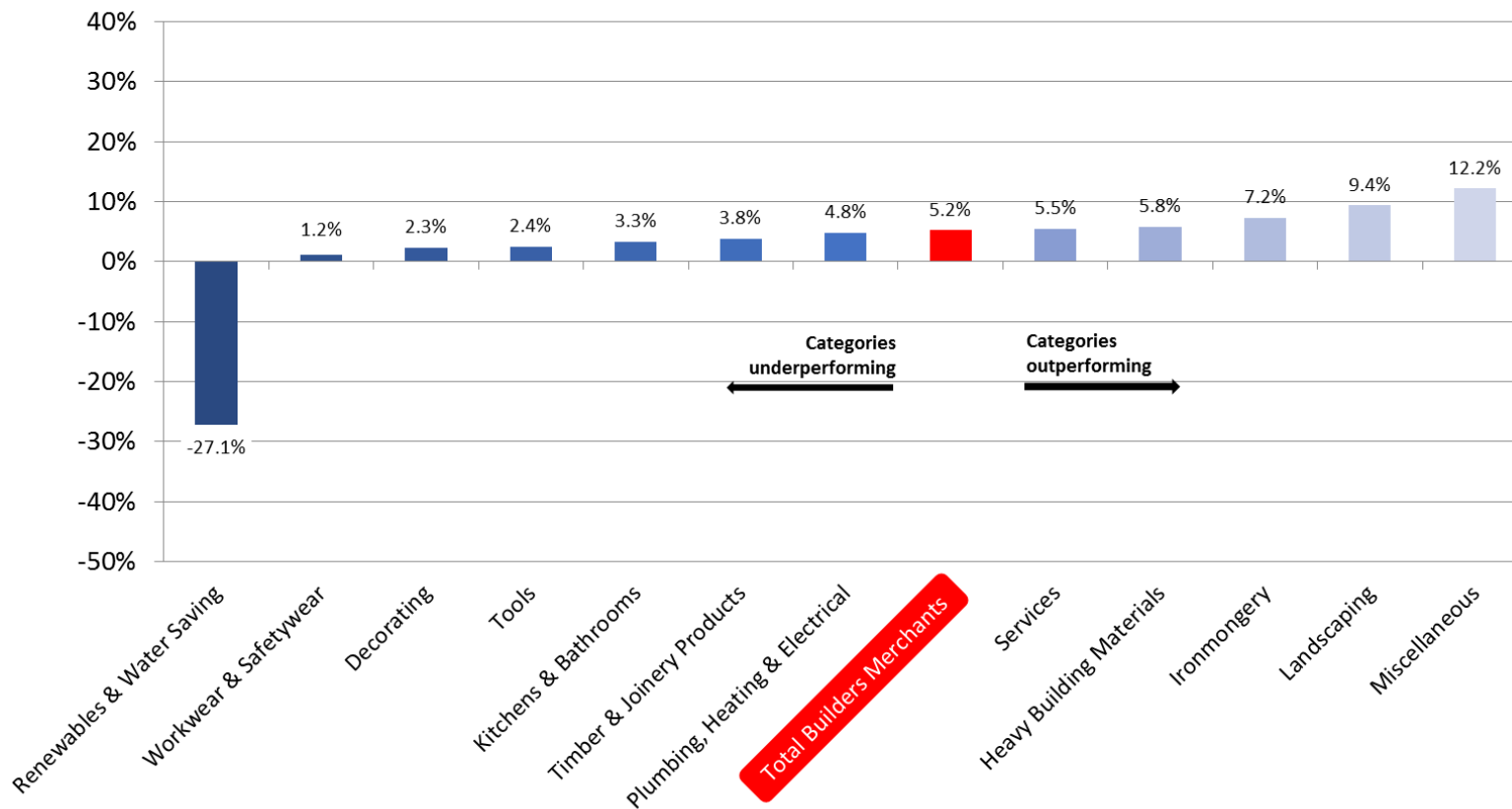


 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

This year v last year

2016 sales

Full Year 2016 v 2015



GfK Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Expert Panel

PVC-U Windows & Doors

(part of Timber & Joinery Products)



No.1 for choice • No.1 for colour



Steve Halford, Group Managing Director Crystal Direct is BMBI's Expert for PVC-U Windows & Doors.

Builders' merchants' fourth quarter sales of PVC windows and doors were up 3% on Q3, consolidating strong growth on the previous year: Q4 was a hefty 68% up on Q4 2015.

Larger regional merchants' sales in particular accelerated at a faster rate than earlier in the year, driven mainly by an increase in awareness and confidence among their small to medium sized builder customers. There was also a noticeable increase in submissions of 'plans requiring take-off' from merchants, split approximately 60/40 between full new build and extensions.

Enquiry levels surged 22% in Q4 compared with Q3, as builders' merchants focus increasingly on the opportunity to win back lost window and door sales to builders who already buy most of their building materials from them. Having seen the potential size of the PVC window and door business to be recovered, and experienced success at recovering sales lost when builders, large and small, had gone direct to window manufacturers, merchants are getting stuck in to this obvious growth market.

Their builder customers had gone elsewhere because their builders' merchant suppliers didn't supply PVC windows and doors. Now, not only can they supply them, but the range, quality, colours and speed of service is better than they are getting, and merchants are making it easy to return.

At branch level, merchant requests for additional training are growing. Having found that product specific training delivers a noticeable impact on results, requests are running at their highest levels.

Requests for sample products & full showroom developments are also growing. Simple undifferentiated window and doors may sell adequately without showroom support, but as with kitchens and bathrooms, differentiated PVC windows and doors in a wide range of styles, colours and hardware sell better when builders and their customers can see the full range and choice with appropriate displays and illustrations, and can discuss their needs with personnel who know the products. 'High ticket' value home improvements such as kitchens and bathrooms, and PVC windows and doors warrant more engaging customer experiences, and sell proportionately more when they are provided.

“Larger regional merchants' sales in particular accelerated at a faster rate than earlier in the year, driven mainly by an increase in awareness and confidence among their small to medium sized builder customers.”

Expert Panel

Roof Windows

(part of Timber & Joinery Products)



John Duffin, Managing Director Keylite Roof Windows is BMBI's Expert for Roof Windows.

Strong Quarter 4 housing and Repair, Maintenance and Improvement (RMI) performances have contributed to 2016 ending on a relative high compared to the gloom many predicted mid-year. House building registrations increased in most UK regions, apart from London.

The roof window market grew by an estimated 8-11%, with merchants enjoying strong demand from the RMI market which accounts for the majority of roof window sales. Roof windows are the practical, cost effective daylight solution which small builders are confident installing. They are a strong driver of over-the-counter business.

So, the focus for manufacturers must be to strengthen merchant partnerships and add real value through initiatives which secure merchants' 'ownership' of customer groups, and drive direct sales rather than just create noise in the market.

As the UK's overall migration to consumer e-commerce continues, merchants face increasing competition from arms-length, roof window internet traders. To combat this threat, merchants can work closely with their manufacturer partners, pooling their combined resources to compete effectively together for online sales. The last thing merchants need is to have to start competing with their suppliers for online business.

Manufacturer-merchant partnerships can be extremely effective in capturing online sales. For example, a combined campaign achieved 112% online sales growth in the 12 months to end 2016. This £6-7m online growth market is shaping the service consumers and smaller builders expect from merchants. Today's web-savvy builder or self-build consumer no longer accepts getting their products dropped off "when the lorry is passing their way". Today's internet buyers expect fast, predictable delivery and our industry needs to respond with customer focused service.

Raw material increases, rising fuel costs and the effects of a weaker pound introduce a cautious note for Q1. Building material shortages are becoming a concern to national house builders who already face extended lead times and many price increases. This is manageable, but the biggest threat to the industry is anything that dents consumer confidence. Brexit negotiations are days away so we must rely on political management to keep demand afloat.

“...the focus for manufacturers must be to strengthen merchant partnerships and add real value through initiatives which secure merchants' 'ownership' of customer groups, and drive direct sales rather than just create noise in the market.”

Expert Panel

Timber & Panel Products

(part of Timber & Joinery Products)



Everything wood should be



Nigel Cox, Managing Director Timbmet is BMBI's Expert for Timber & Panel Products.

The timber market is up year on year, but after months of post-EU referendum uncertainty and a significant adjustment in exchange rates, so are prices for hardwood timber. However, these are now starting to stabilise, although at a higher level than previous years.

The effects of the referendum are also threatening to make existing skills shortages worse. Skills shortages have been affecting all areas of the industry from HGV drivers, wood machinists, skilled timber selectors, to trade counter sales staff. The lack of skilled labour is a primary concern for our industry, and any additional restrictions from Brexit will have serious implications for domestic and commercial projects.

There is a notable increase in demand for European Oak worldwide and across sectors outside traditional carpentry and joinery markets because of its quality and durability. For example, European Oak is used for mass scale production in flooring and doors. Choosing a distributor with strong supplier relationships will be key to obtaining a steady and reliable supply, especially for prime grade hardwood.

OSB timber is winning share from Chinese Plywood because it is more stable, more cost effective, and generally has a full chain of custody. Sales of door blanks and engineered timber into the merchant sector are also growing steadily. However, supplies of MDF and Chipboard from UK manufacturers remain under pressure. Suppliers are reluctant to utilise their overseas manufacturing facilities because of high exchange rates.

Illegal deforestation remains a concern for the timber industry. A recent report from the Collaborative Partnership on Forests (CPF) indicates that one third of tropical timber traded globally comes from illegal deforestation. The Center for International Forestry Research (CIFOR) says: "this stems from an increase of timber traded on domestic markets, which are less regulated and strict than international, export-orientated markets". To help combat the trade in black market timber, it is important to choose an accredited supplier. Always ask for chain of custody information and for certified timbers (e.g. FSC or PEFC certified) where it's available.

“The lack of skilled labour is a primary concern for our industry, and any additional restrictions from Brexit will have serious implications for domestic and commercial projects.”

Expert Panel

Civils, Metal Rainwater & Drainage

(part of Heavy Building Materials)



Steve Durdant-Hollamby, Managing Director Alumasc Water Management Solutions (AWMS) is BMBI's Expert for Civils, Metal Rainwater & Drainage.

The rainwater and drainage market got off to a slow start in 2017, although merchants continue to report growth in RMI and a positive start to the New Year. Specification and commercial projects have been delayed by cold weather, particularly for civils, and a lack of skilled labour. Government's investment in infrastructure will boost manufacturer volumes on large scale projects, but we need a strong commitment to develop our skilled workforce for the supply chain to reap the full benefits.

The effects of fluctuating exchange rates and consecutive months of price increases in the last quarter of 2016 are now beginning to be felt. There is still a high degree of uncertainty in the market and it's difficult to forecast confidently with Article 50 and the outcomes of European elections hanging over the UK.

Price increases are particularly significant in the steel market, with rises of over 60%. Manufacturers are unable to pass all this on to customers, so margins are being squeezed.

The spectre of anti-dumping is now a serious issue that will add more pressure on British manufacturers if the European Commission approves a protectionist tariff on foreign imports that it believes are priced below fair market value. A group of European manufacturers is pursuing an opportunistic anti-dumping claim against UK manufacturers importing from foundries in China or India. If approved, there is a risk of a levy of 20% or more being imposed on all imported products. It's a frustrating process, with European manufacturers resurrecting a claim investigated only a few years ago. All the foundries in question were cleared, but despite this, they will be put under investigation again.

On the upside, exports are strong, there is a trend to specification of steel rainwater as housebuilders switch from plastic to something more robust and sleek looking, and the Government's new Housing white paper will give a welcome boost to the housing market and construction industry overall. More homes will generate demand for innovative rainwater and drainage solutions.

We're in for an interesting and perhaps bumpy year, but overall we expect sales and the market to have evened out towards the end of 2017.

“We're in for an interesting and perhaps bumpy year, but overall we expect sales and the market to have evened out towards the end of 2017.”

Expert Panel

Cement & Aggregates

(part of Heavy Building Materials)



Andrew Simpson, National Commercial Director Hanson Cement is BMBI's Expert for Cement & Aggregates.

Demand for mineral products was strong in the final quarter of last year, helping to boost overall 2016 sales volumes by 4% for ready-mixed concrete, 4.2% for aggregates, and 4.6% for mortar. Sales to builders' merchants were up in Q4 on a like-for-like basis. Asphalt was flat as progress on some major road schemes was delayed but we expect to see the momentum for all products flow into 2017. Demand for ready-to-use products remains high, and like-for-like sales are better than other product lines. As anticipated, demand for plastic packaged cement increased in the winter months.

Despite the uncertainty around Brexit, we have not seen it impact significantly on construction activity, and the outlook is positive.

The Government's commitment to accelerate housebuilding will be welcomed by the builders' merchant sector. The Mineral Products Association forecasts that infrastructure spending will rise to £66.1bn in 2017/18, and merchants will benefit from this increased activity too. It's important therefore that suppliers and builders' merchants are ready to meet this increase in demand.

Restoring some of the capacity that was taken out of the market during the recession and improving plant efficiencies gives customers security of supply in a growth market. Investing in people, processes and merchant staff training puts customers first and ensures they sell the right product for the job so they and their customers can make the most of the growth opportunities.

Adding value to the customer experience is crucial to maximising sales all along the supply chain. Recent research we conducted among end-users indicates that there is still a substantial knowledge gap among small contractors and the DIY market when it comes to picking the right product for the job. This is where merchants and their staff can really add value and stand out from online suppliers.

There is a lot to be positive about at present, a view shared by some investment analysts, who believe that construction stocks could be undervalued given recent performance announcements and on-going work streams. The crux will be whether that confidence can be sustained and transformed into activity on the ground.

“...there is still a substantial knowledge gap among small contractors and the DIY market when it comes to picking the right product for the job. This is where merchants and their staff can really add value and stand out from online suppliers.”

Expert Panel

Roofing Products

(part of Heavy Building Materials)



Andy Williamson, Group Managing Director IKO Plc is BMBI's Expert for Roofing Products.

The final quarter of 2016 was in line with the rest of the year for roofing - inconsistent, but up on the same period in 2015. The industry went into 2016 with high expectations, but due to unprecedented events such as Brexit, the US presidency, a fluctuating exchange rate, and the ensuing complications and consequences a number of projects were delayed in 2016, although RMI was largely unaffected. In roofing, the single ply market saw a cyclical swing to hot melt after years of strong growth.

The NHBC recently commented that house building has remained resilient, with some good regional growth outside London. The RICS Q4 2016 Construction Market Survey saw expectations for workloads regain lost ground following Brexit, after a noticeable dip around the time of the referendum. Both are indications of a good 2017 for roofing. The storms and frosts we normally get in January and February mean there's usually lots of shed work to repair the damage done, so Q1 2017 should be up on Q4 2016.

There are still plenty of challenges, however. The RICS report also mentioned that skills shortages continue to be a key impediment to construction growth and with Article 50 to be triggered this year, this will become even more of an issue as EU workers facing an uncertain future are more likely to leave the UK.

Oil prices continue to rise - Shell Chief Executive Ben van Beurden expects the point of peak global oil demand "sometime in the 2030s" - so we have a long way to go. We're also likely to see raw material rises and possibly raw material shortages in some areas of roofing, which will affect prices, and therefore work.

One key issue for roofing is using torch-on products. We have seen too many fires caused by using a torch flame on a combustible substrate for example, without fixing a non-combustible layer first. This is a fire risk no matter how capable the roofer. Training can only help - but using the right products with the right applicants is even more important.

This year will bring its own challenges, and no doubt surprise us, but overall roofing should hold up well.

“The final quarter of 2016 was in line with the rest of the year for roofing - inconsistent, but up on the same period in 2015.”

Expert Panel

Steel Lintels

(part of Heavy Building Materials)



Derrick McFarland, Managing Director Keystone Lintels is BMBI's Expert for Steel Lintels.

The year 2016 finished strongly, continuing the momentum set in Q3. The second half-year was well up against the first half of 2016, and significantly up on the second six months of 2015. After a year dominated by Brexit politics, the politics of Q4 was totally absorbed in the US presidential elections. The aftershocks are still continuing and Twitter's profile has been raised. Maybe this was a side show, light relief to Britain's domestic turmoil. Either way, the market got on with spending and building.

Back to reality! The steel lintel market is strongly reliant on house building and RMI, and both sectors improved in the second half of 2016. At the end of Q1, many were questioning if house building could deliver the projected volumes in 2016. It looked unlikely but, by the end of the year, the numbers were achieved.

The house building market is positive and projections for 2017 are good. However with increasing input costs across a wide range of building materials, how long can the construction industry absorb these increases? Steel increases, prominent in our product range, may have distorted our own volume trends over the past six months and, all the signs are, there may be more steel cost pressures to come.

The long awaited Housing white paper arrived, pledging financial support for offsite construction. It's important we understand the risk this holds to traditional manufacturers, and merchant supply-chain partners. Traditionally sourced materials may now be bought directly from Europe or other sources, bypassing British businesses entirely.

We support the positivity around construction, and we all need to play a part in protecting our futures. Product innovation will be the key, but that doesn't necessarily mean off-site. Products that help to simplify the build process will be of greater value in the built environment.

In simple terms, thermally performing traditional cavity lintels, while more expensive, are of greater value to the build programme than two separate lintels. We have a duty to promote good building practices for traditional building methods, using new innovative products.

“The steel lintel market is strongly reliant on house building and RMI, and both sectors improved in the second half of 2016.”

Expert Panel

Mineral Wool Insulation

(part of Heavy Building Materials)



John Sinfield, Managing Director Knauf Insulation is BMBI's Expert for Mineral Wool Insulation.

The latest State of the Trade Survey from the Construction Products Association (CPA) reported that sales in the UK construction products manufacturing market grew for a 15th consecutive quarter in Q4 2016. In addition, the UK economy expanded by 0.6% compared with Q3 2016, and by 2.3% compared with the same quarter in 2015.

Looking at the merchant sector, we have seen significant mineral wool insulation growth over and above those levels, with a high portion of the uplift coming from sales of higher performing products. The growth is due partly to specific initiatives which have been implemented with merchant customers, and partly to overall industry growth as highlighted in this BMBI report and the CPA's State of the Trade Survey.

In line with many materials, particularly petrochemical based products, insulation is experiencing input cost pressure from the decline in the value of sterling. The mineral wool insulation sector is subsequently benefiting across all applications as merchants & distributors deal with petrochemical-based shortages and price increases.

Looking ahead, there is some nervousness in the global energy efficiency industry as it waits to see how President Trump approaches the Paris Agreement. There is widespread concern that he will make good on his pre-election promise to renege on his predecessor's ratification of the climate change deal.

Closer to home, we've seen a private buy-out of the Green Deal Finance Company in an attempt to stimulate the RMI market. The Government also published 'Fixing our broken housing market', its Housing white paper, in which they were expected to illustrate how they would stimulate and facilitate the building of one million homes by 2020. Unfortunately, while acknowledging the problem and many of the causes, the white paper failed to deliver clear answers on that ambition, with all corners of the industry questioning the true merit of its content.

In summary though, the market fundamentals are positive in the merchant sector, and sales of mineral wool insulation products are buoyant, but we wait to see how policy will impact on longer term sales.

“...the market fundamentals are positive in the merchant sector, and sales of mineral wool insulation products are buoyant, but we wait to see how policy will impact on longer term sales.”

Expert Panel

Insulation Products - Distribution

(part of Heavy Building Materials)



Mike Beard, Merchant Development Director Encon Insulation is BMBI's Expert for Insulation Products - Distribution.

The government has published Fixing Our Broken Housing Market, its long awaited housing white paper, in the drive to boost the UK's housing supply. Representing a big policy shift and containing some ambitious measures, could this be the new blueprint to providing a smoother, more efficient framework to deliver more homes? Only time will tell, but many of the proposed measures, if properly executed, will be a positive step forward in growing the housing supply to meet demand.

Housing generates substantial business for the whole supply chain - merchants, distributors and suppliers, from new build through to RMI - and we desperately need more homes. The white paper proposes support to housebuilders (in particular smaller businesses), as well as a requirement for councils to produce up-to-date housing plans aligned transparently with the existing housing demand. Government aims to simplify practices and speed up all stages in the building process to create homes more quickly. The current timeframe between planning permission and build is far too long, with some permitted developments left undeveloped for a long time.

Government has given the green light to the £1.2 billion Starter Homes Land Fund to stimulate the entry point in the housing market. Thousands of additional new homes with financial support will help first time buyers into home ownership. Meanwhile, the first ever garden villages, with the potential to deliver more than 48,000 homes across England, have been given government backing. These developments should bring significant new business to merchants.

For the rest of construction, you only have to take a look around to see positive signs of infrastructure activity with many building sites and tower cranes all over the big cities – a pleasing sight.

Following the referendum and post-Brexit uncertainty, exchange rate movements have added to the cost of imported materials, fuelling widespread material price inflation and squeezing margins after years of little or low price movement.

We have to hope the sector takes this as a positive, as manufacturers have pushed price inflation through to maintain their own margins, allowing them to invest in new technologies and increased capacity.

“...the first ever garden villages, with the potential to deliver more than 48,000 homes across England, have been given government backing. These developments should bring significant new business to merchants.”

Expert Panel

Bricks

(part of Heavy Building Materials)

IBSTOCK



Tony France, Sales Director Ibstock, is BMBI's Expert for Bricks.

Brick industry demand has increased strongly in recent years, but slowed in the early part of 2016 as distributors rebalanced stocks. Manufacturers have expanded their output to meet the increased demand allowing distributors to hold lower stocks.

It is a positive sign that the bricks now being ordered are being used. There doesn't appear to be the stockpiling that the industry experienced in 2013-4. This is due to increased capacity, but also to the brick manufacturers' and major developers' improved planning systems. Combined with improved forecasting by developers this helps ensure customers get what they want when they need it, so there's no requirement to panic-buy!

Last year, brick sales to the Repair Maintenance and Improvement (RMI) market were down as merchants stabilised yard stocks following over-stocking in 2015. However, RMI volumes are now returning and should get back to more normal levels this year. Generally, RMI brick demand, which makes up around one third of the brick market, is stable and not hugely affected by the severe fluctuations we've seen historically in the new-build housing sector.

Although brick manufacturers are experiencing strong demand, it's important that housebuilders and merchants are reassured that there is the capacity to meet demand. Manufacturers work closely with customers to help them schedule the bricks they need to maintain their business. In return, it's vital that customers assist by scheduling accurate levels of volume, rather than over-ordering unnecessarily which can lead to false order-books and extended availabilities. In the specification market, we encourage architects to submit a Letter of Intent so the products they want can be reserved for their projects.

The Government's Housing white paper, 'Fixing our broken housing market', should mean more good news for house building and, of course, more house building means more bricks are required. Housebuilders and merchants are advising that more homes will be constructed in 2017 compared to 2016. The trend is also shifting to building fewer apartments/flats and more detached/semi-detached and terraced houses. With this comes more RMI opportunities, which in turn feeds the future growth of the brick industry.

“The trend is also shifting to building fewer apartments/flats and more detached/semi-detached and terraced houses. With this comes more RMI opportunities, which in turn feeds the future growth of the brick industry.”

Expert Panel

Water Heating

(part of Plumbing Heating & Electrical)

HEATRAE SADIA
SMARTER | CLEANER | WARMER



Paul Rivett, Managing Director Heatrae Sadia is BMBI's Expert for Water Heating.

Demand for water heating products held up well in Q4, as it did throughout 2016, regardless of the uncertainty created in the run up to the EU referendum and in its immediate aftermath. New private house building grew in volume, and light commercial electric water heating also did well.

However, the devaluation of sterling after the Brexit vote is starting to affect the market, with reported price increases of up to 8%.

At times like these, it's important to understand the customer and continue to differentiate to add value with real innovation and strong end user benefits. In particular, products that save time and energy, and those that reduce whole life costs make a tangible difference to end users' experience.

Boiling water dispensers for the home and commercial premises is one product area where we expect strong growth this year. Seventy million cups of coffee and 165 million cups of tea are consumed daily in the UK, and at work or in the home, people appreciate boiling water dispensers' convenience, flexibility and ease of use. They've been shown to enhance employee welfare and satisfaction in the workplace. Under counter versions also provide chilled or ambient water options.

The economy is in far better shape than we expected with the Bank of England, ONS and other bodies recovering confidence and revising up their forecasts for 2017. Consumers have been on a spending spree, large housebuilders are selling what they build, and the Government's Housing white paper outlines its plans to reform the housing market to increase the supply of new homes in England. It may not be bold enough to do all that, and it may take some time before the result of the Government's consultations feed through to actual reform, but it should contribute to a stronger more sustained market.

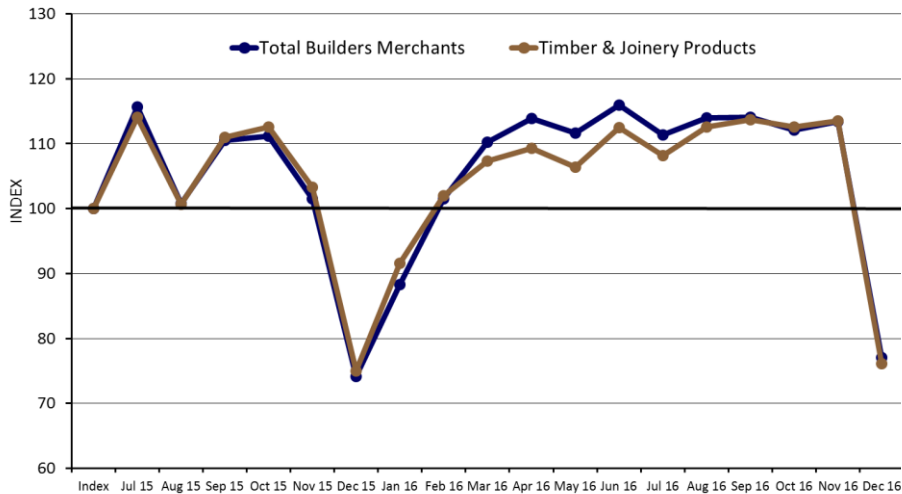
A combination of higher prices, from exchange-rate movements, coming after a long period of low inflation, and investment uncertainty which is likely to delay the start of some construction projects, will result in a challenging year. We expect a flat market during the first half, and a softening in the second period as the two pressures start to bite. But, merchants and contractors who focus on new market opportunities from innovation and product developments will be best placed to mitigate softer markets and grow.

“Boiling water dispensers for the home and commercial premises is one product area where we expect strong growth this year.”

Quarterly Report

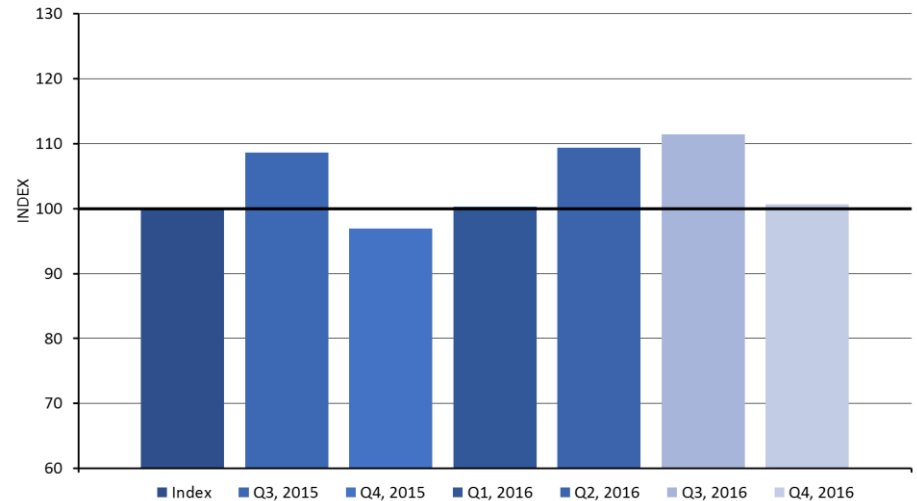
Q4 2016

Timber & Joinery Products



Monthly chart indexed on July 2014 – June 2015

Timber & Joinery Products - Quarterly



Quarterly chart indexed on July 2014 – June 2015

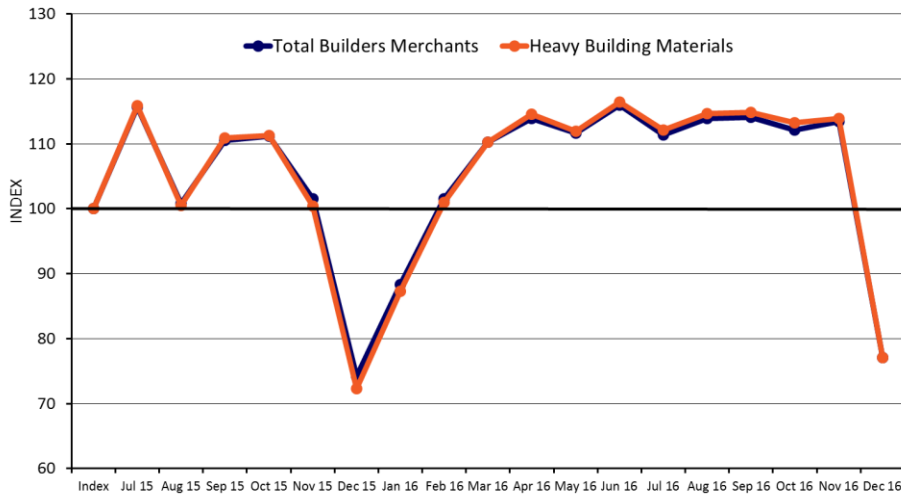
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly Report

Q4 2016

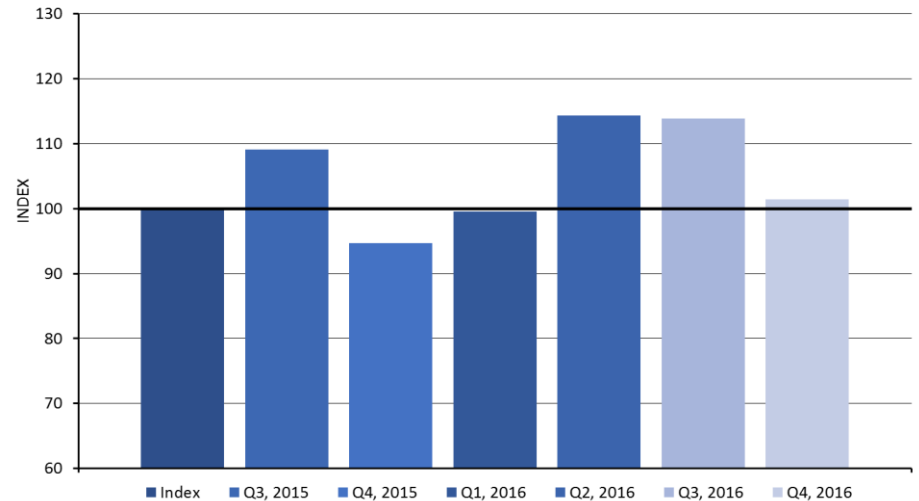


Heavy Building Materials



Monthly chart indexed on July 2014 – June 2015

Heavy Building Materials - Quarterly



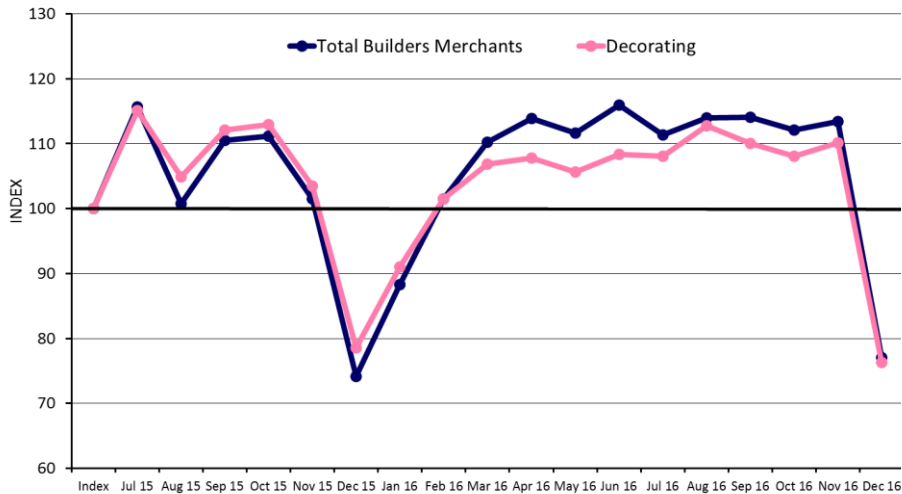
Quarterly chart indexed on July 2014 – June 2015

GfK Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly Report

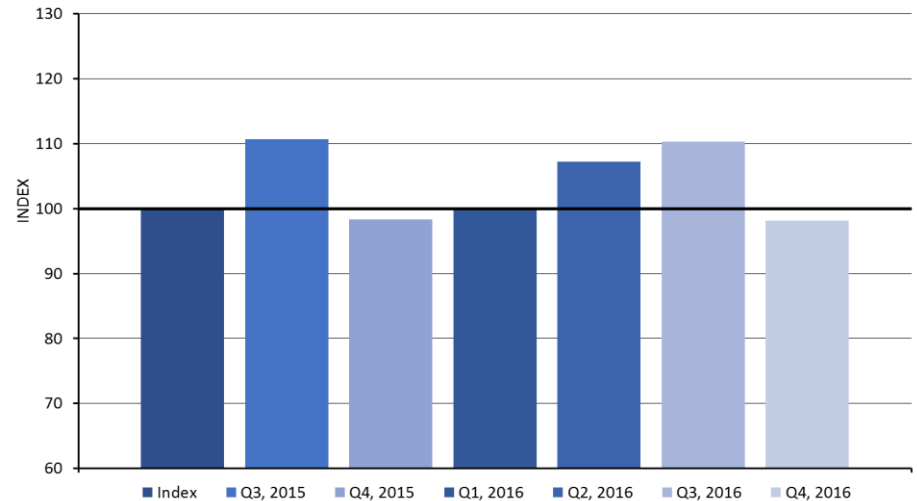
Q4 2016

Decorating



Monthly chart indexed on July 2014 – June 2015

Decorating - Quarterly



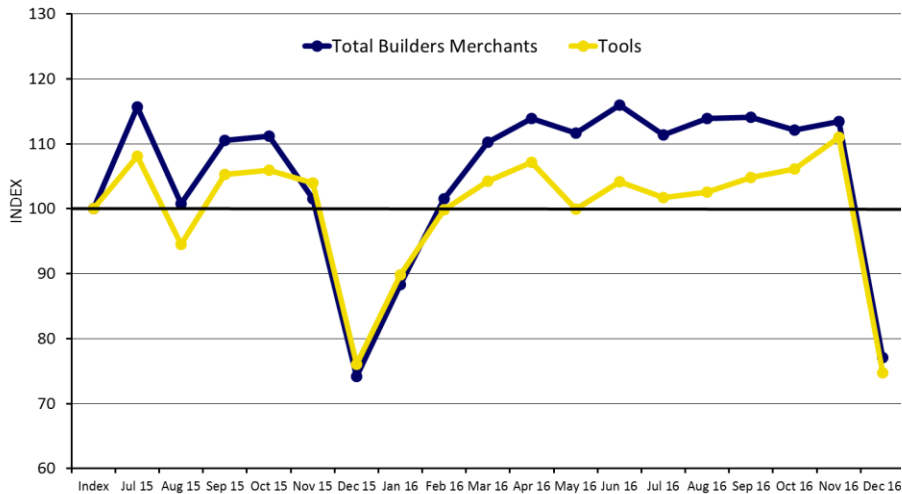
Quarterly chart indexed on July 2014 – June 2015

 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly Report

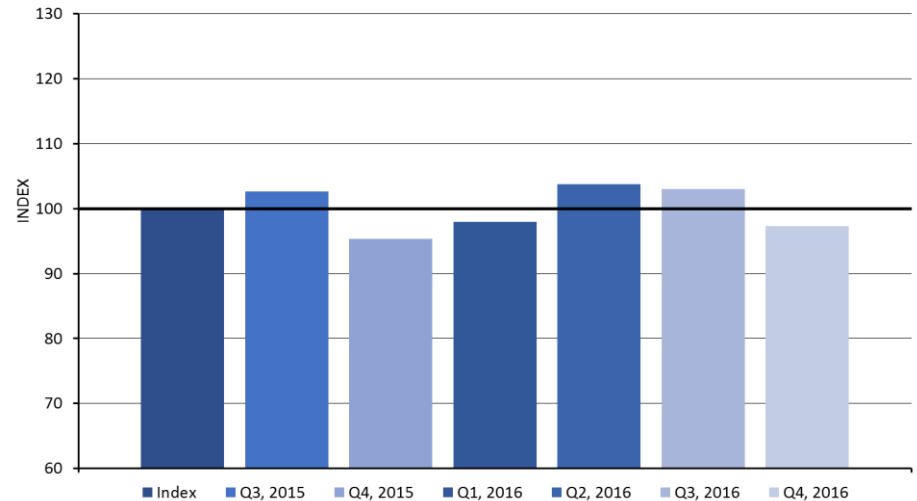
Q4 2016

Tools



Monthly chart indexed on July 2014 – June 2015

Tools - Quarterly



Quarterly chart indexed on July 2014 – June 2015

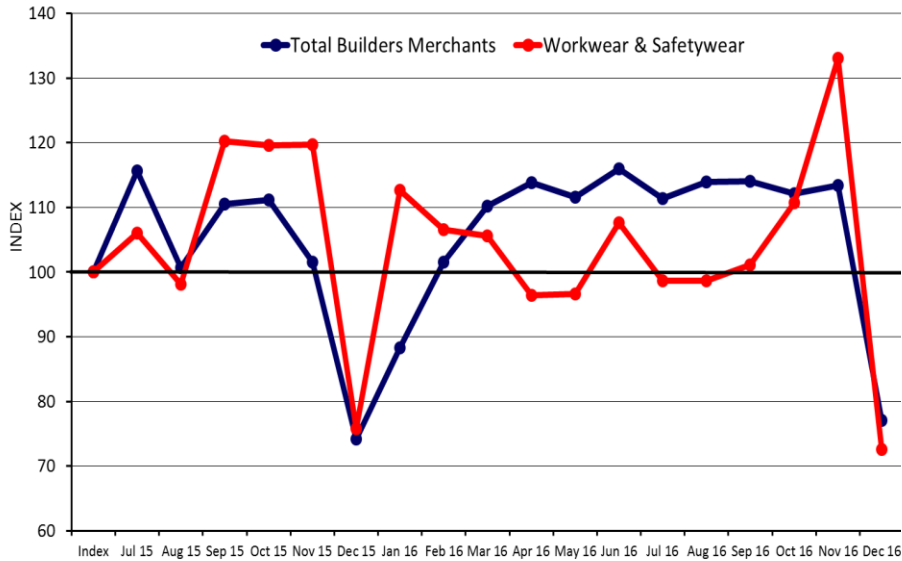
 Source: GfK's
Builders Merchants
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July 2015 to December 2016

Quarterly Report

Q4 2016

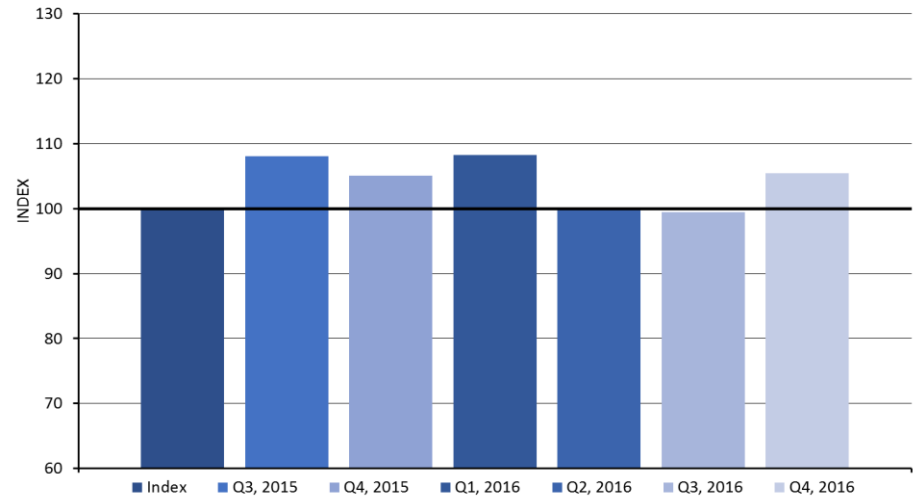


Workwear & Safetywear



Monthly chart indexed on July 2014 – June 2015

Workwear & Safetywear - Quarterly



Quarterly chart indexed on July 2014 – June 2015

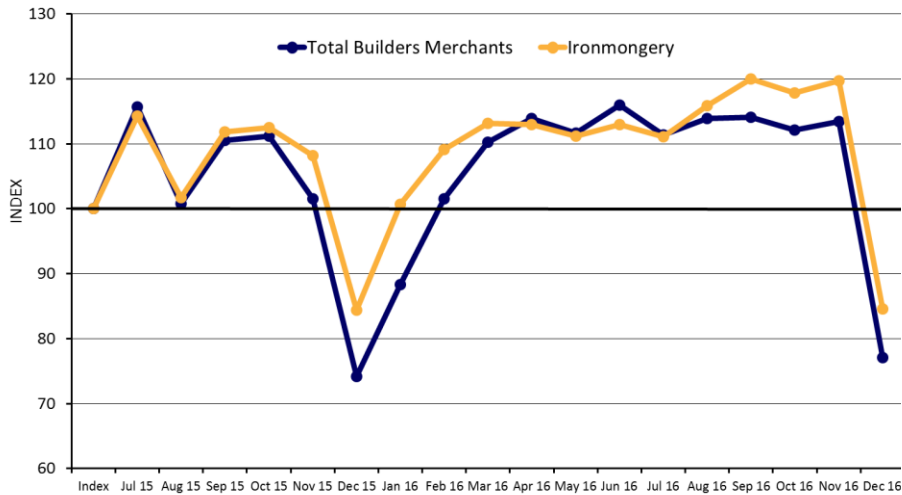
Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly Report

Q4 2016

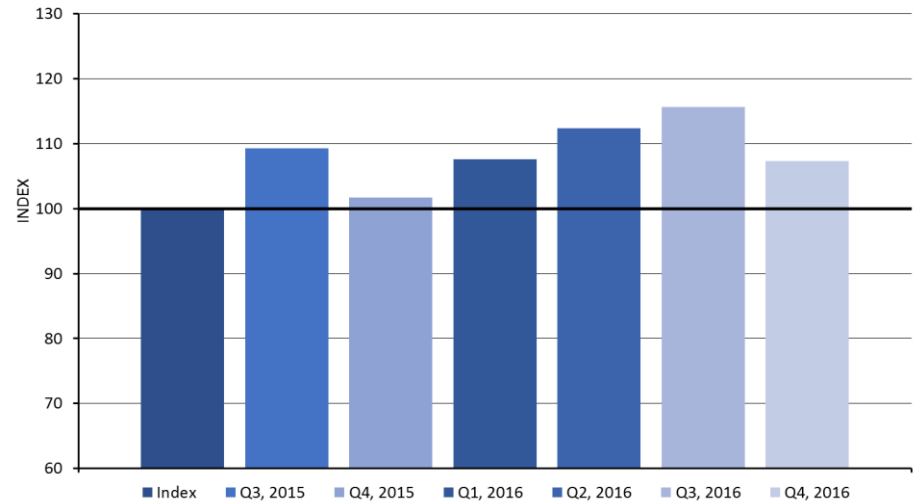


Ironmongery



Monthly chart indexed on July 2014 – June 2015

Ironmongery - Quarterly



Quarterly chart indexed on July 2014 – June 2015

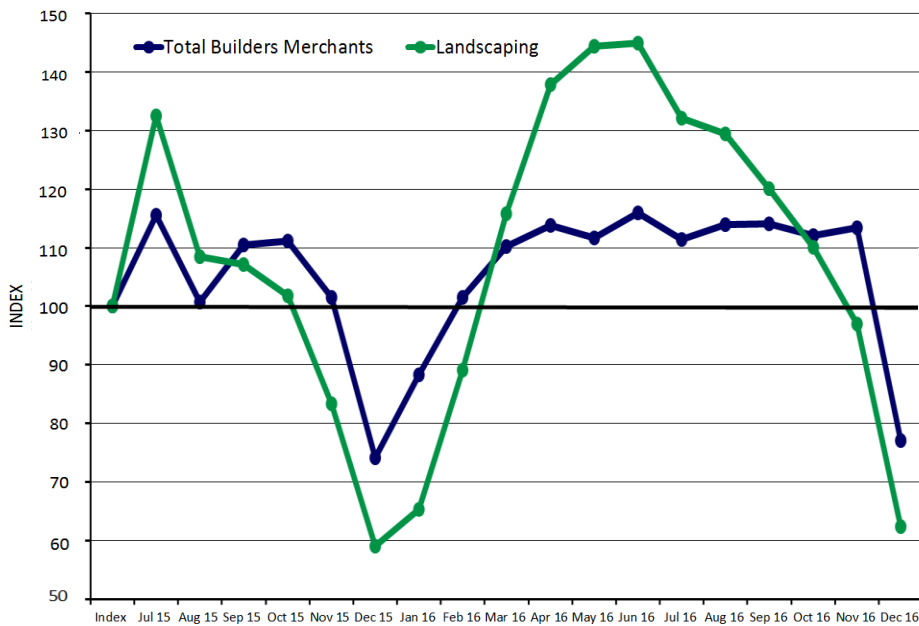
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Quarterly Report

Q4 2016

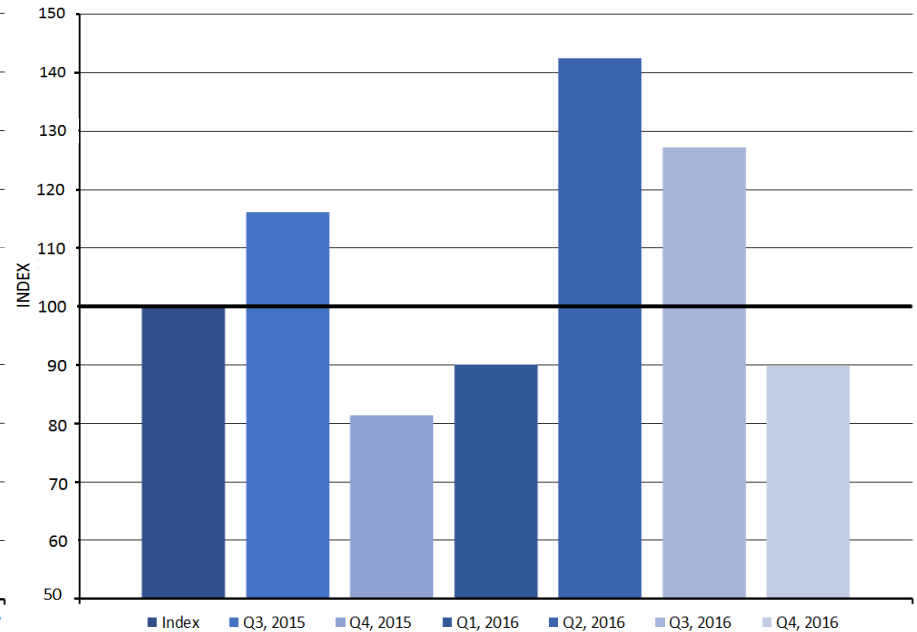


Landscaping



Monthly chart indexed on July 2014 – June 2015

Landscaping - Quarterly



Quarterly chart indexed on July 2014 – June 2015

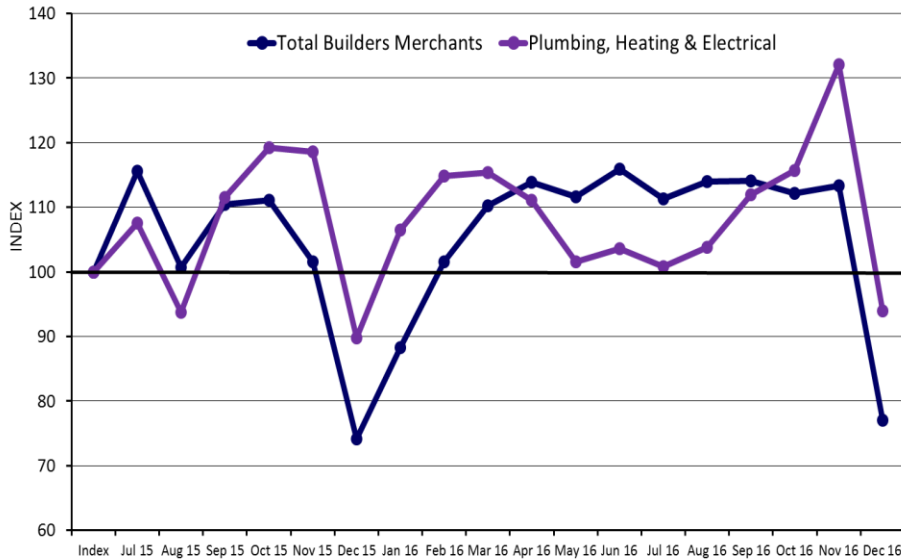
GfK Source: GfK's
Builders Merchants
Total Category Report
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Quarterly Report

Q4 2016

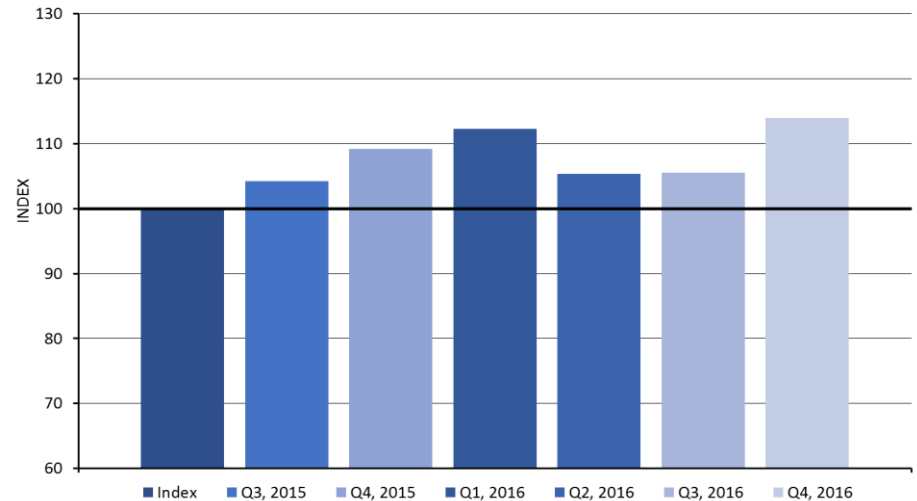


Plumbing, Heating & Electrical



Monthly chart indexed on July 2014 – June 2015

Plumbing, Heating & Electrical - Quarterly



Quarterly chart indexed on July 2014 – June 2015

GfK Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

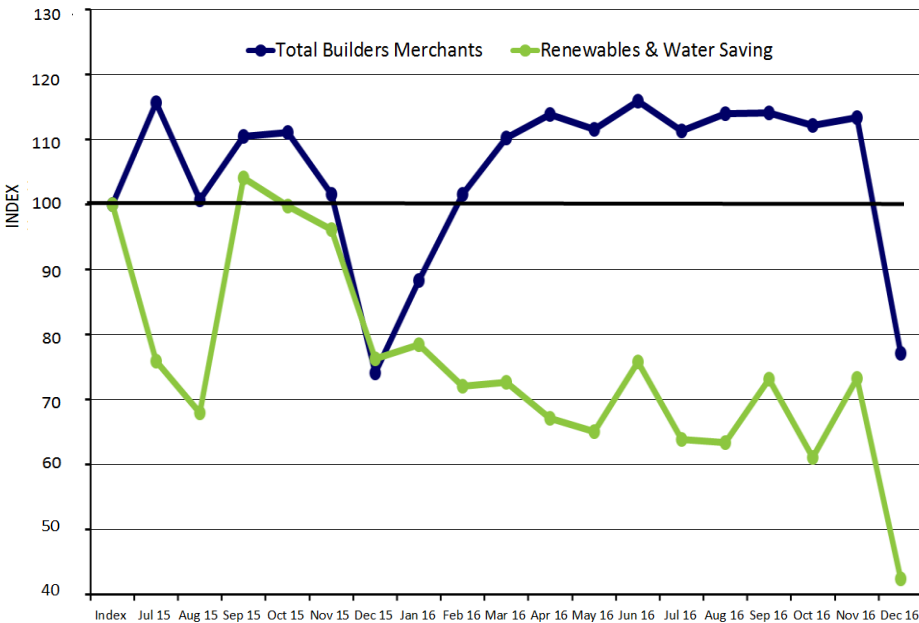
Quarterly Report

Q4 2016

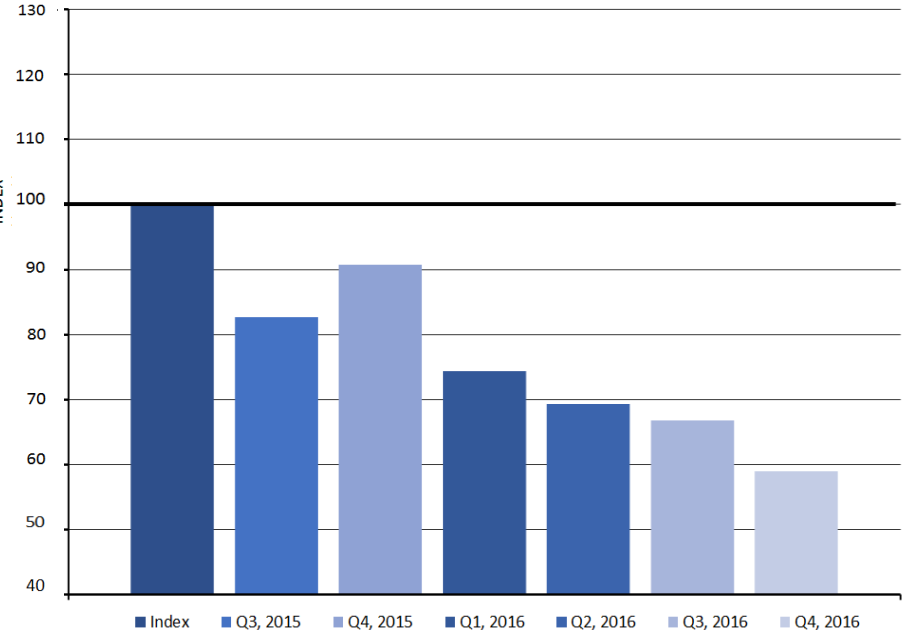


Renewables & Water Saving

Renewables & Water Saving - Quarterly



Monthly chart indexed on July 2014 – June 2015



Quarterly chart indexed on July 2014 – June 2015

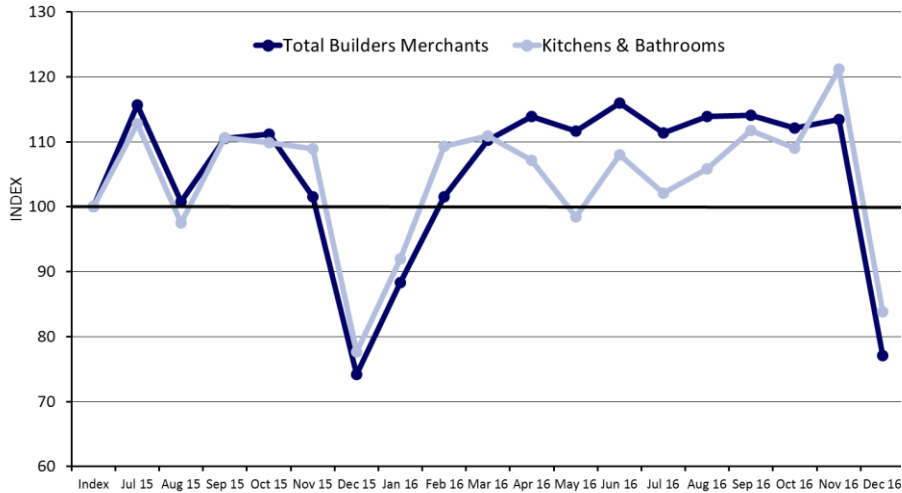
Source: GfK's Builders Merchants Total Category Report July 2015 to December 2016

Quarterly Report

Q4 2016

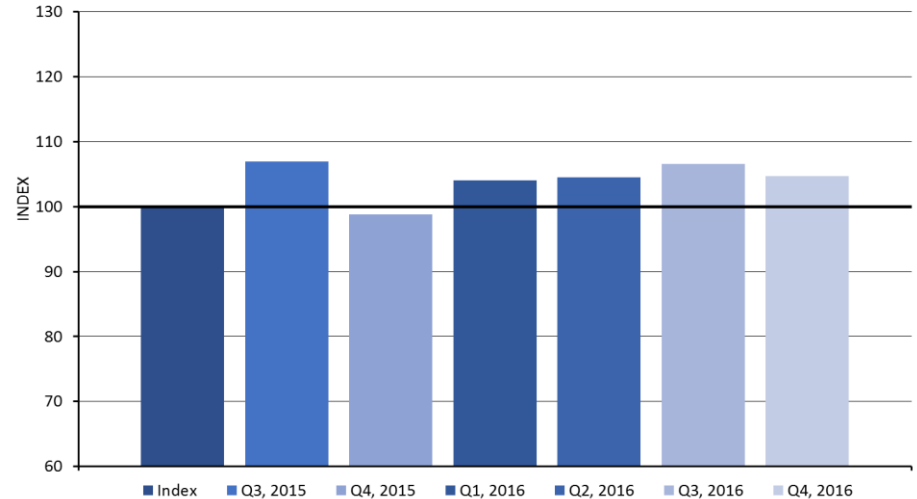


Kitchens & Bathrooms



Monthly chart indexed on July 2014 – June 2015

Kitchens & Bathrooms - Quarterly



Quarterly chart indexed on July 2014 – June 2015

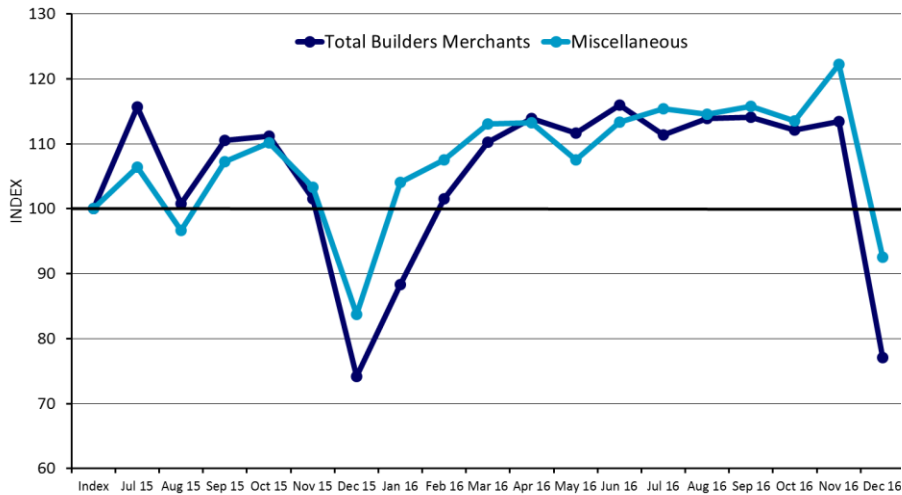

Source: GfK's
 Builders Merchants
 Total Category Report
 July 2015 to December 2016

Quarterly Report

Q4 2016

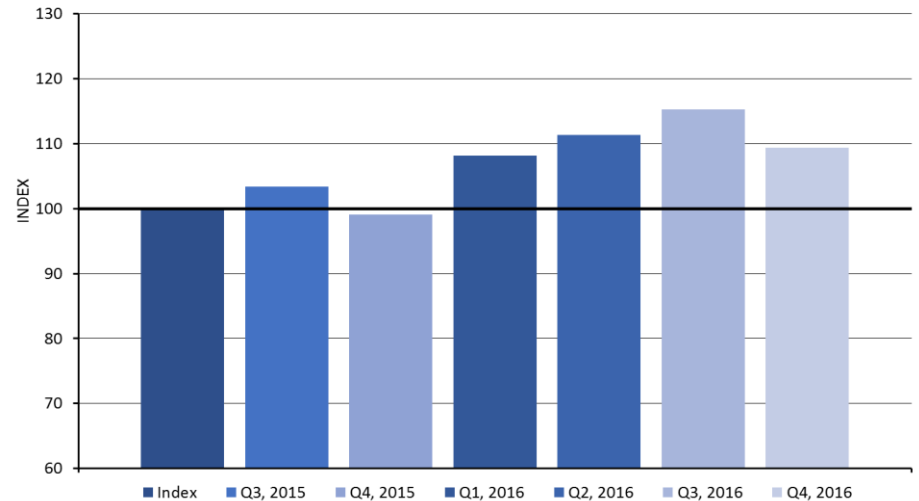


Miscellaneous



Monthly chart indexed on July 2014 – June 2015

Miscellaneous - Quarterly



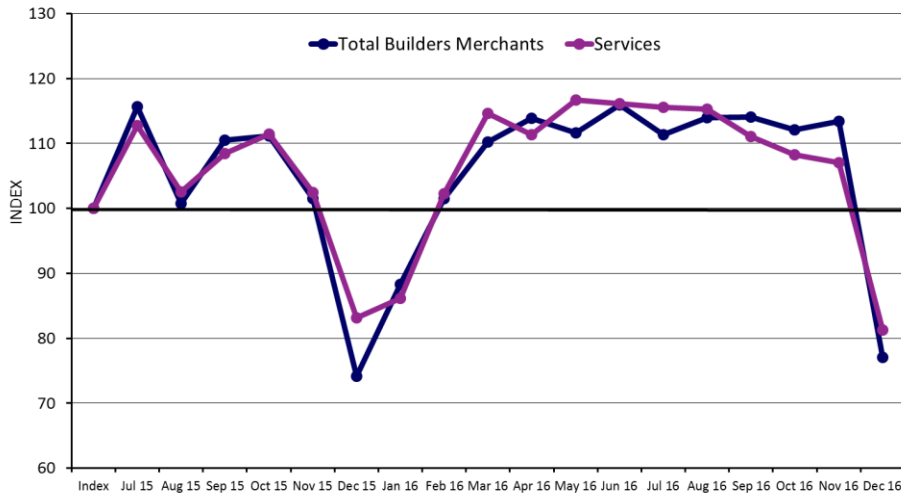
Quarterly chart indexed on July 2014 – June 2015

GfK Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

Quarterly Report

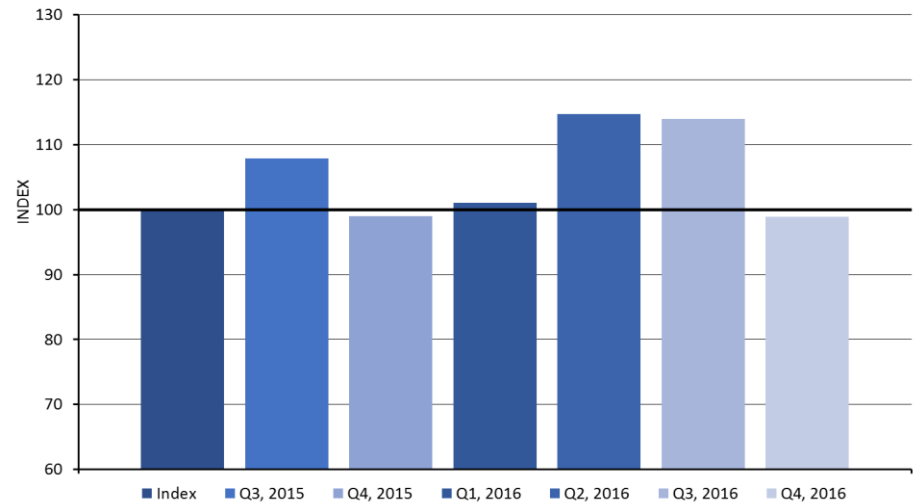
Q4 2016

Services



Monthly chart indexed on July 2014 – June 2015

Services - Quarterly



Quarterly chart indexed on July 2014 – June 2015

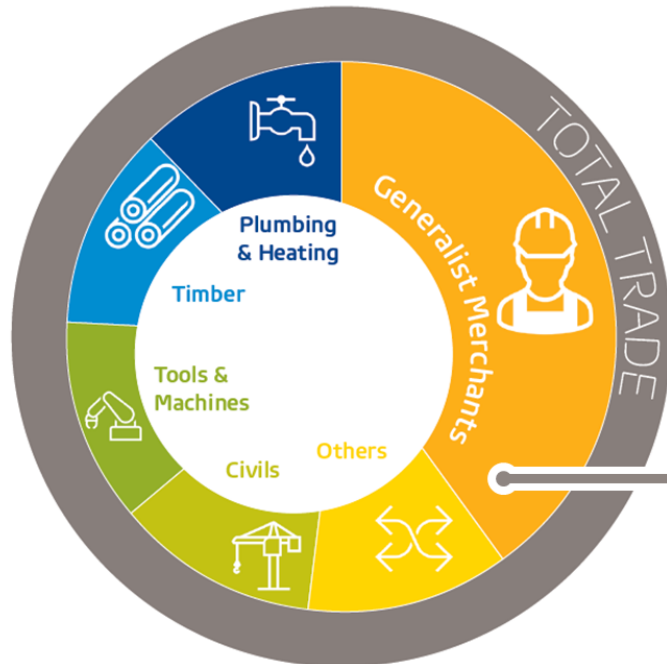
 Source: GfK's
Builders Merchants
Total Category Report
July 2015 to December 2016

GfK's Panel

Generalist Builders Merchant Panel (GBM's)



The Multiple Generalist Builders Merchants Channel



Generalist Builders Merchants

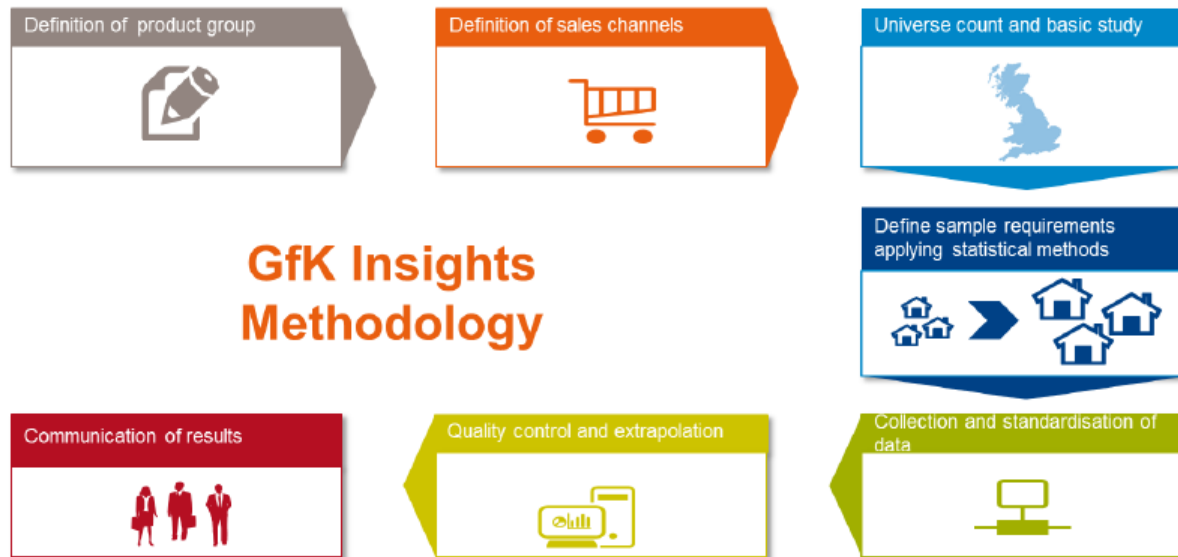
Builder Merchants handle an extended range of building materials and components (e.g. doors, windows, interior furnishing materials, insulation materials, tiles, cement, mortar, adhesives, sealants, nails, hardware products, pipes, ironware, paint) and generate their turnover with professional end users.

Multiple merchants are those defined as having more than 3 outlets or a turnover of greater than £3m p.a.

Examples include:



GfK Insights Methodology



GfK collect live sales-out data from our panel of merchant partners.

We add value to that data through the application of each sold product's unique technical features. We compare like-for-like products and categories from like-for-like merchants and aggregate this within our reports.

Our international methodology is based on robust scientific principles and delivers continuous, reliable information that can be applied to your business requirements.

GfK's Product Categories

Reports cover category headline values & in-depth, brand-level insights



Headline values available

Timber & Joinery Products

Timber
Sheet Materials
Cladding
Flooring & Flooring Accessories
Mouldings
Stairs & Stairparts
Window & Frames
Doors/Door Frames

Heavy Building Materials

Bricks Blocks & Damp Proofing
Drainage/Civils/Guttering
Lintels
Cement/Aggregate/Cement Accs
Concrete Mix/Products
Plasters Plasterboards And Accessories
Roofing Products
Insulation
Cement Mixers/Mixing Buckets Products
Builders Metalwork
Other Heavy Building Equipment/Material

Decorating

Paint/Woodcare
Paint Brushes Rollers & Pads
Adhesives/Sealants/Fillers
Tiles And Tiling Accessories
Decoration Preparation & Decorating Sundries
Wall Coverings

Tools

Hand Tools
Power Tools
Power Tool Accessories
Ladders & Access Equipment

Workwear And Safetywear

Clothing
Safety Equipment

Ironmongery

Fixings And Fastenings
Security
Other Ironmongery

Landscaping

Garden Walling/Paving
Driveways/Block Paving/Kerbs
Decorative Aggregates
Fencing And Gates
Decking
Other Gardening Equipment

Plumbing Heating & Electrical

Plumbing Equipment
Boilers Tanks & Accessories
Heating Equipment/Water Heaters/Temperature Control/Air Treatment
Radiators And Accessories
Electrical Equipment
Lighting And Light Bulbs

Renewables And Water Management

Water Saving
Renewables & Ventilation

Kitchens & Bathrooms

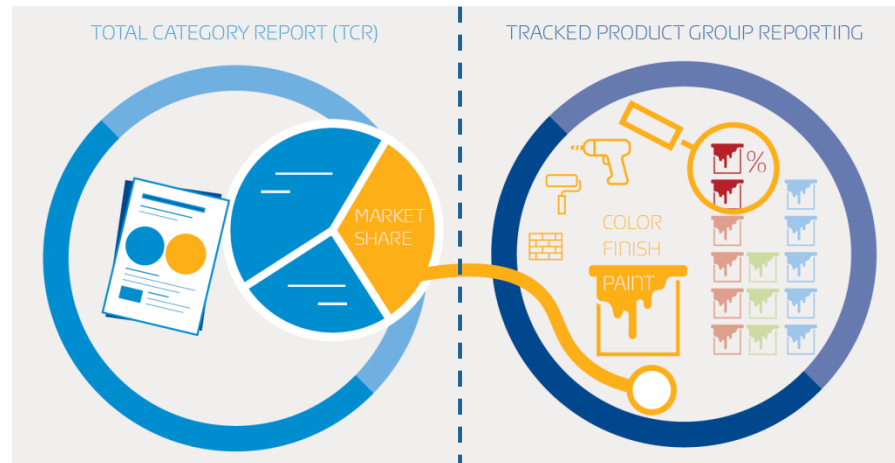
Bathroom (Including Showering)
Fitted Kitchens
Major Appliances

Miscellaneous

Cleaning/Domestic/Personal
Automotive
Glass
Other Furniture & Shelving
Other Misc

Services

Toolhire / Hire Services
Other Services



In-depth product group reporting

Monthly sales values, volumes, pricing analysis & distribution facts available by brand and key product features.

For insights on your product group please contact Pete Church at GfK (pete.church@gfk.com).

Available categories:

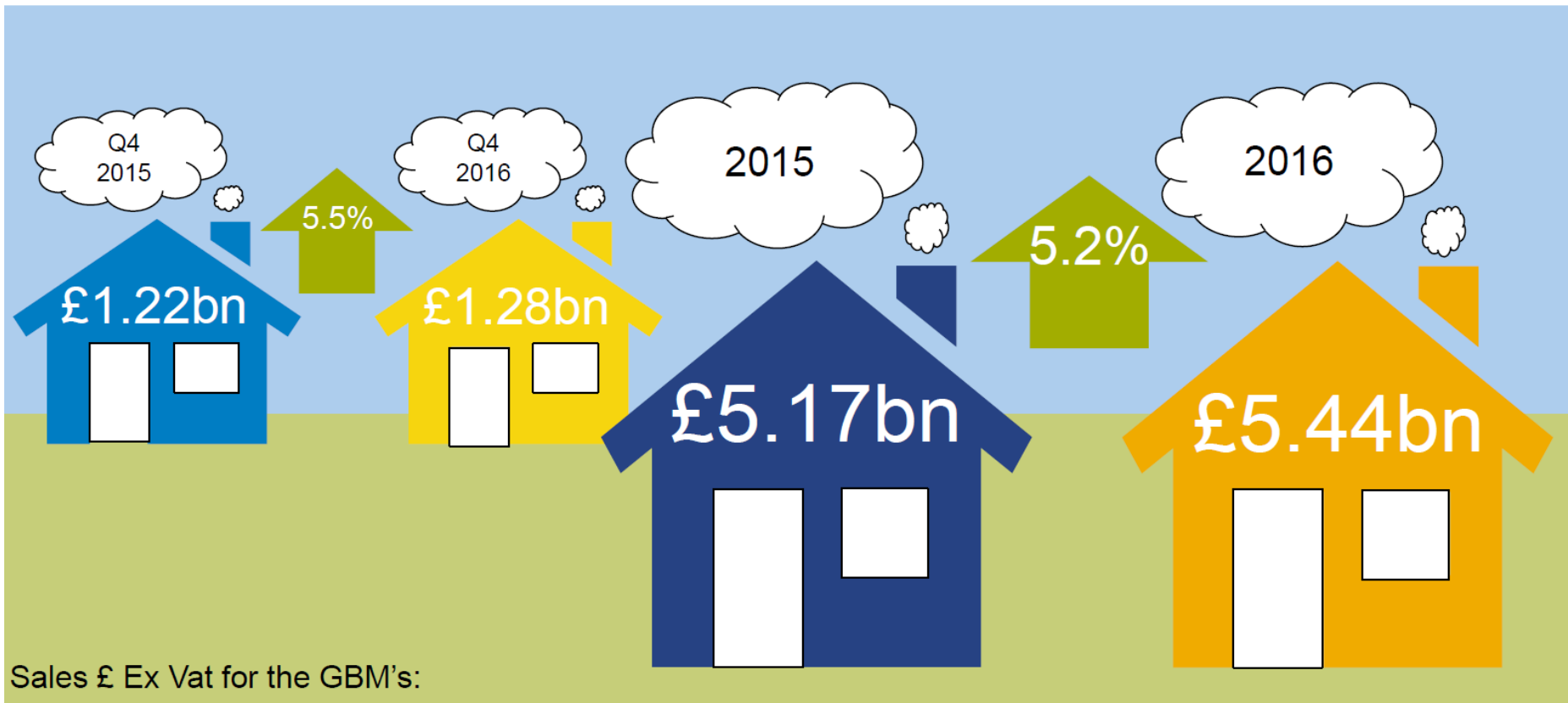
Heavyside

Bricks
Insulation

Lightside

Emulsion Paints (incl. Masonry & Base)
Trim Paints
Primers/Undercoats
Woodcare
Adhesives
Sealants
Fillers/PU Foam
Tile Fixing (Adhesives/Grout)

A strong finish to 2016 cements a great year of growth for the Generalist Builders Merchants



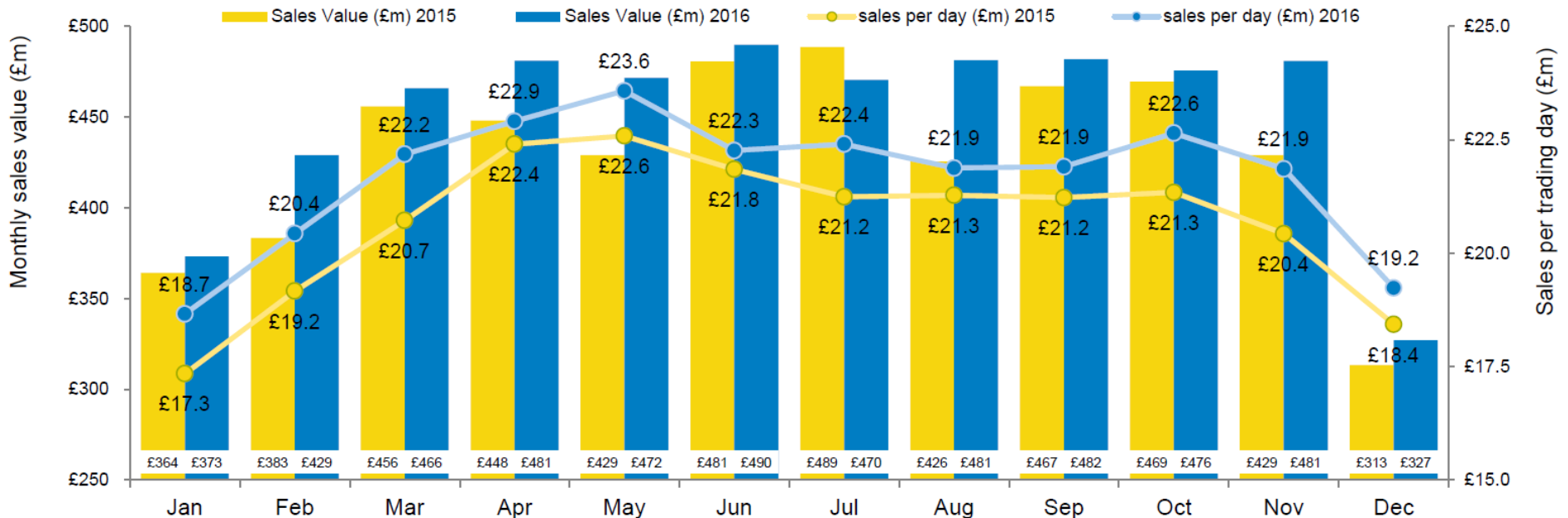
Sales £ Ex Vat for the GBM's:

Source: GfK's GBM TCR report. Data July 2014 to Dec 2016 showing £ ex VAT

© GfK February 17, 2017 | BMF Q4 2016 General Builders Merchant Panel update

Monthly year-on-year value growth regardless of trading day variations emphasises a fantastic performance from the generalist merchants.

TRADING DAYS	Jan	Feb	Mar	Apr	May	June	July	August	September	October	November	December
2015	21	20	22	20	19	22	23	20	22	22	21	17
2016	20	21	21	21	20	22	21	22	22	21	22	17

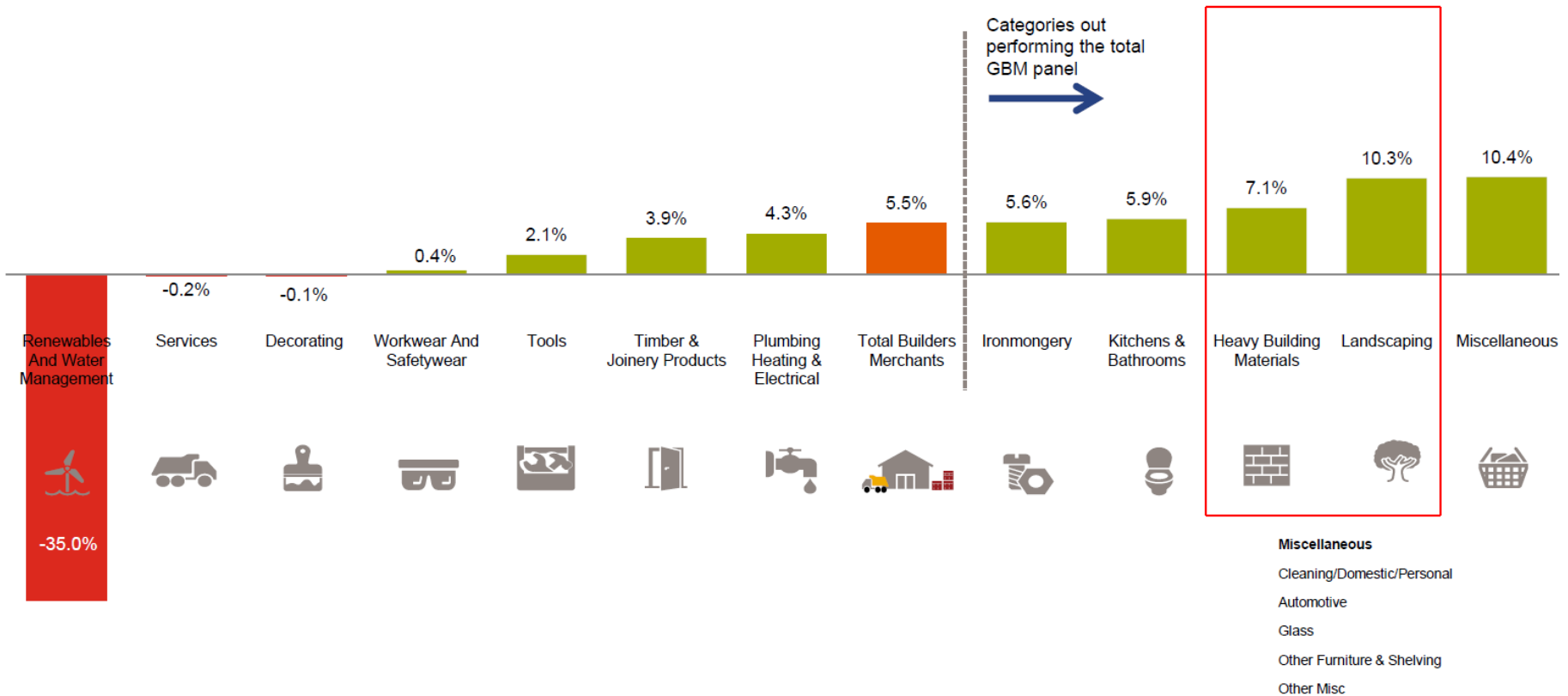


Source: GfK's GBM TCR report. Data July 2014 to December 2016 showing £ ex VAT

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Strong growth in Q4 2016 YoY in two of the largest categories.

Landscaping and Heavy Building Materials drive total builders merchants.

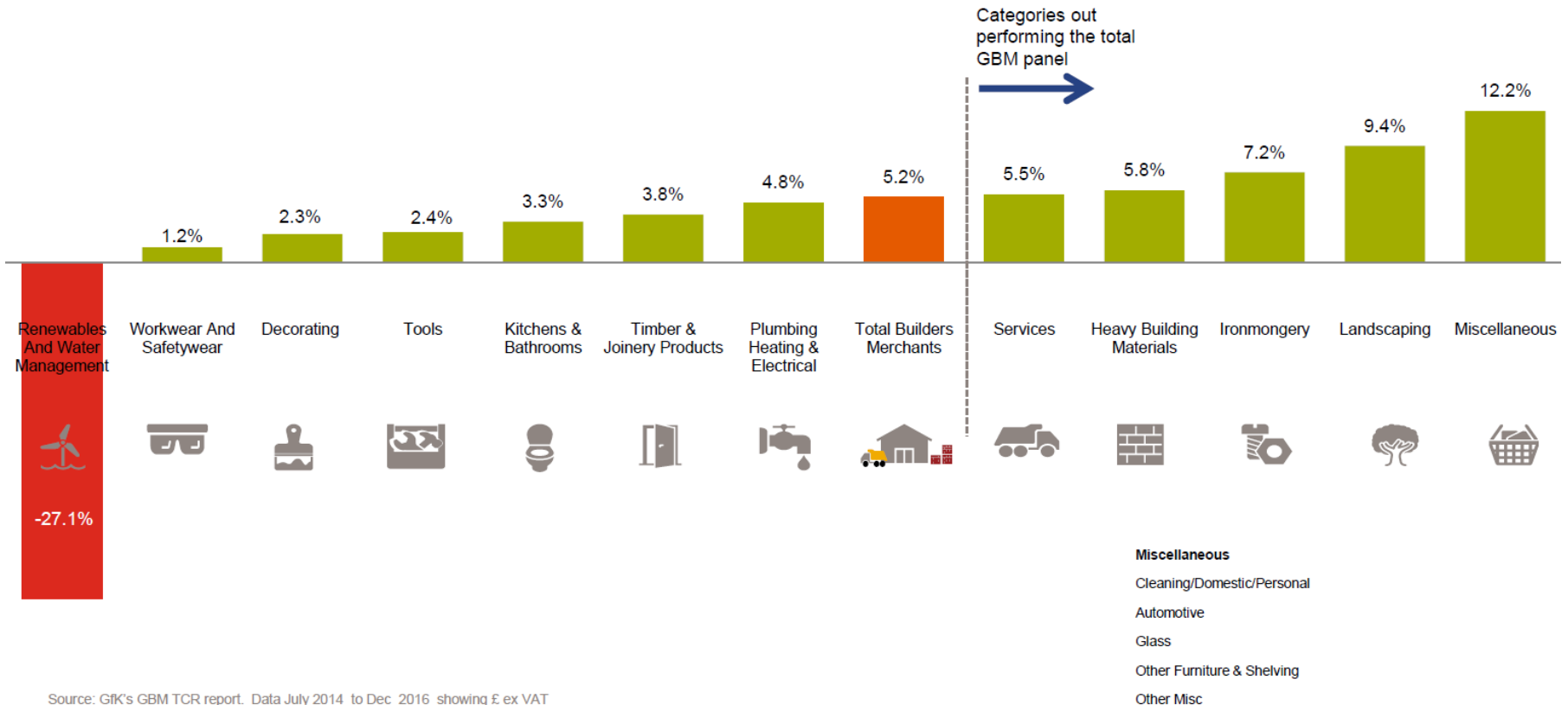


Source: GfK's GBM TCR report. Data July 2014 to Dec 2016 showing £ ex VAT

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2016 saw growth in all categories with the exception of Renewables.

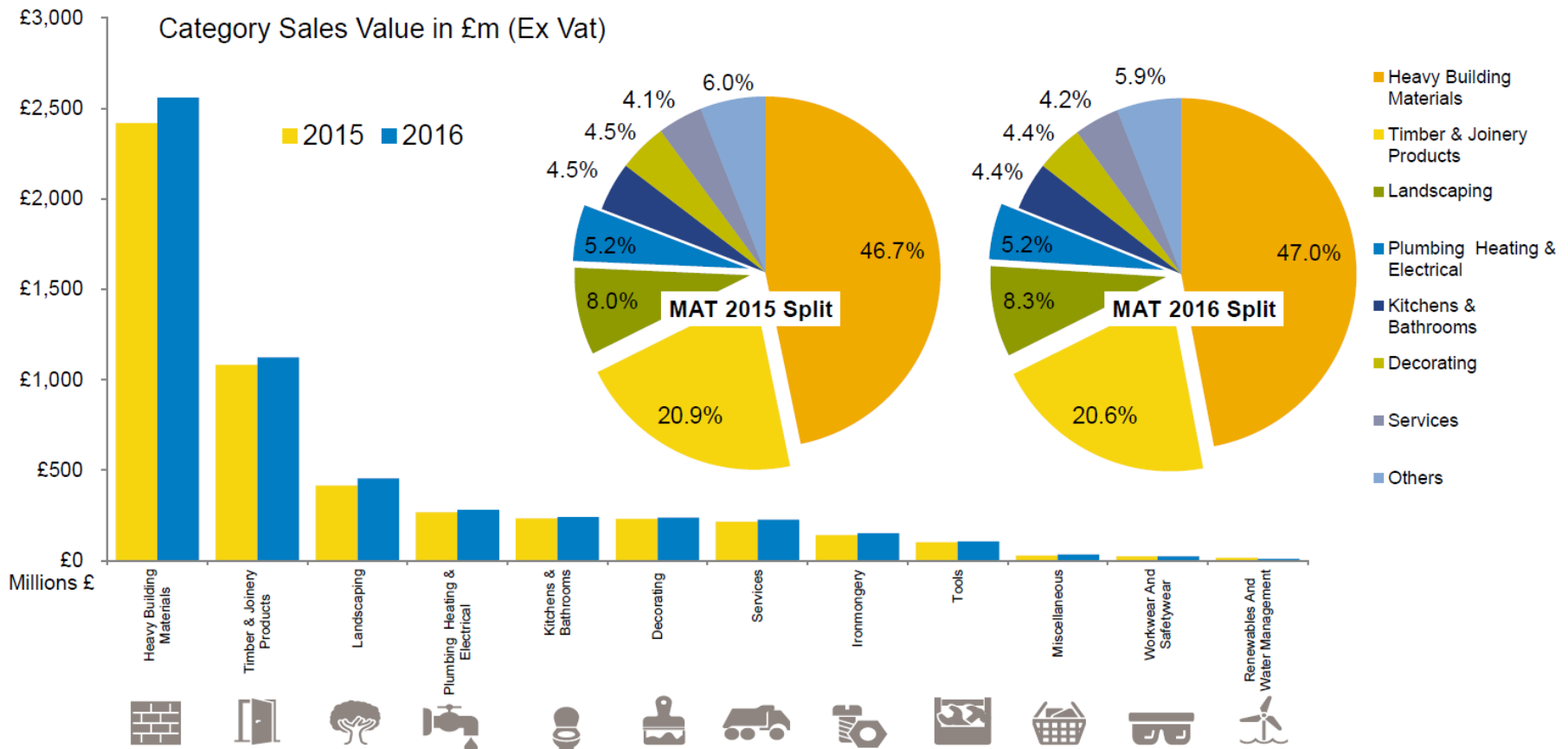
A drier and slightly warmer 2016 contributed to strong growth in Landscaping.



Source: GfK's GBM TCR report. Data July 2014 to Dec 2016 showing £ ex VAT

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Heavy Building Materials increased share, driving growth within the merchants. Topping £2.5b in sales in 2016.



How can these top level insights help.



National

Travis Perkins



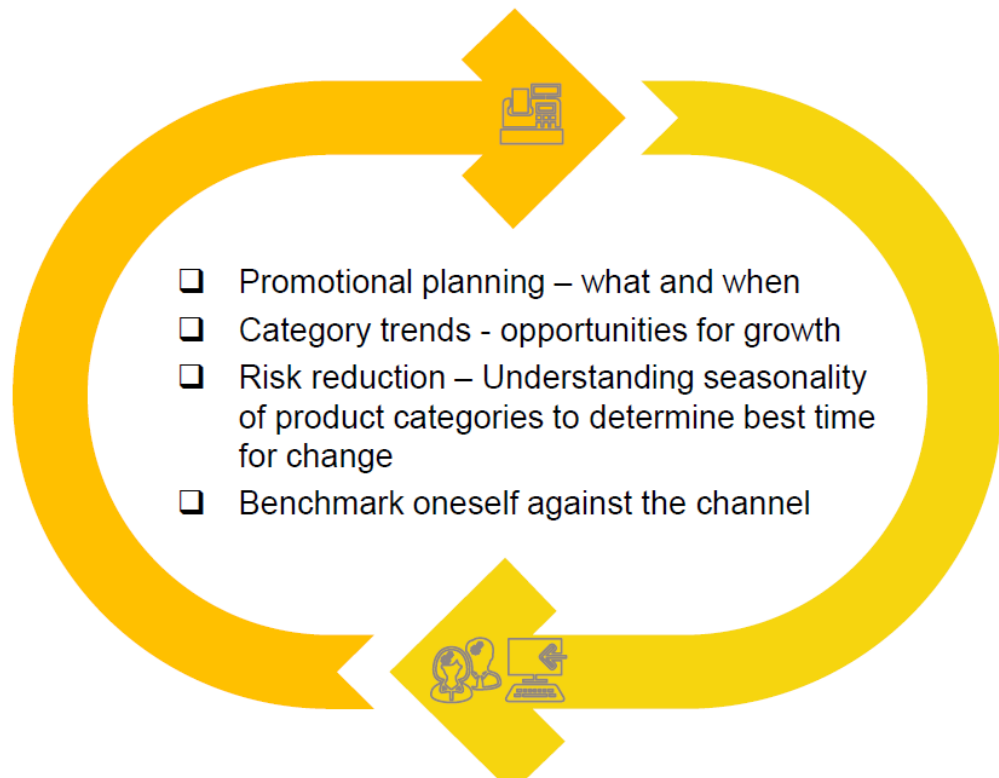
Multi Regional

EH Smith



Regional

Bradfords
BUILDING SUPPLIES



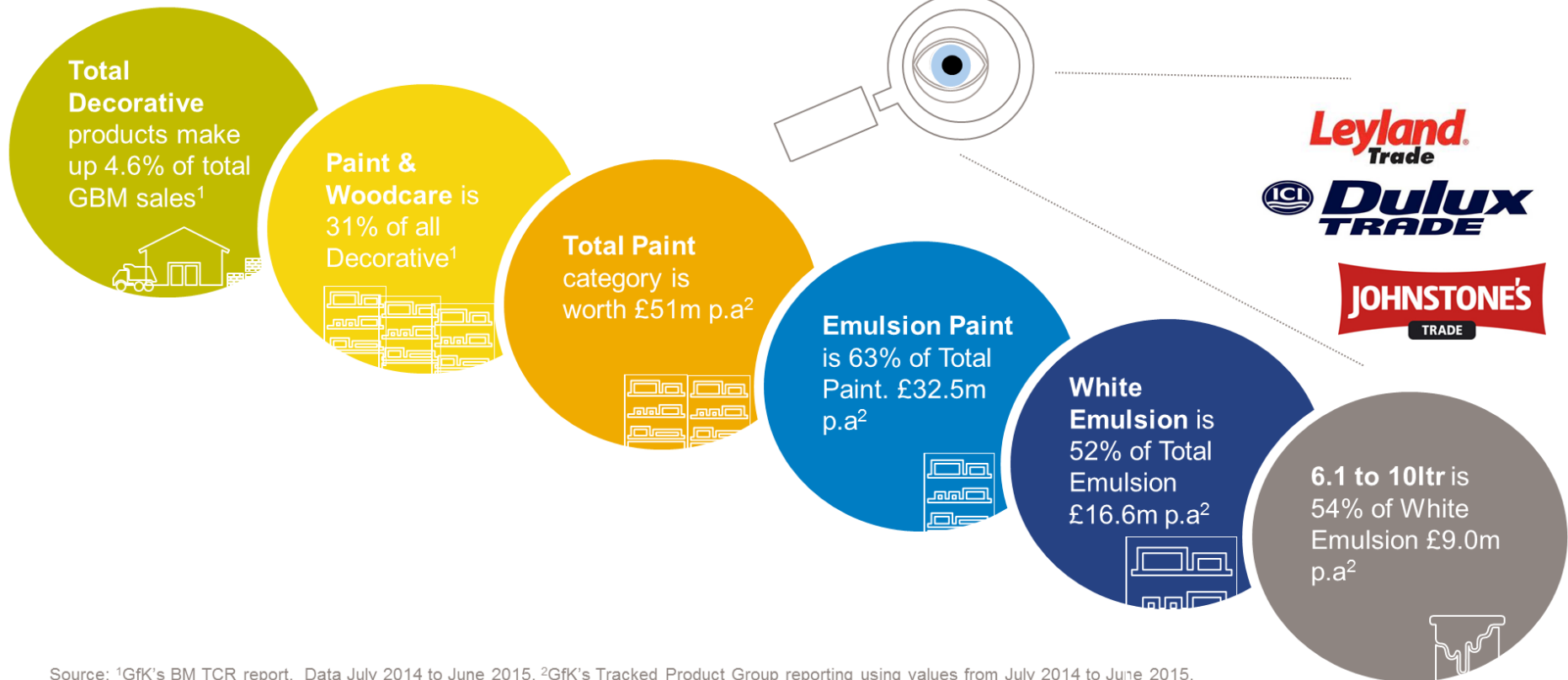
- ❑ Promotional planning – what and when
- ❑ Category trends - opportunities for growth
- ❑ Risk reduction – Understanding seasonality of product categories to determine best time for change
- ❑ Benchmark oneself against the channel



GfK's insights can go much further!

Gain competitive advantage. GfK provides the most detailed trade insights in the UK

Product group insights at feature by brand level are available.
Enabling informed strategic and tactical decision making.



Source: ¹GfK's BM TCR report. Data July 2014 to June 2015. ²GfK's Tracked Product Group reporting using values from July 2014 to June 2015.

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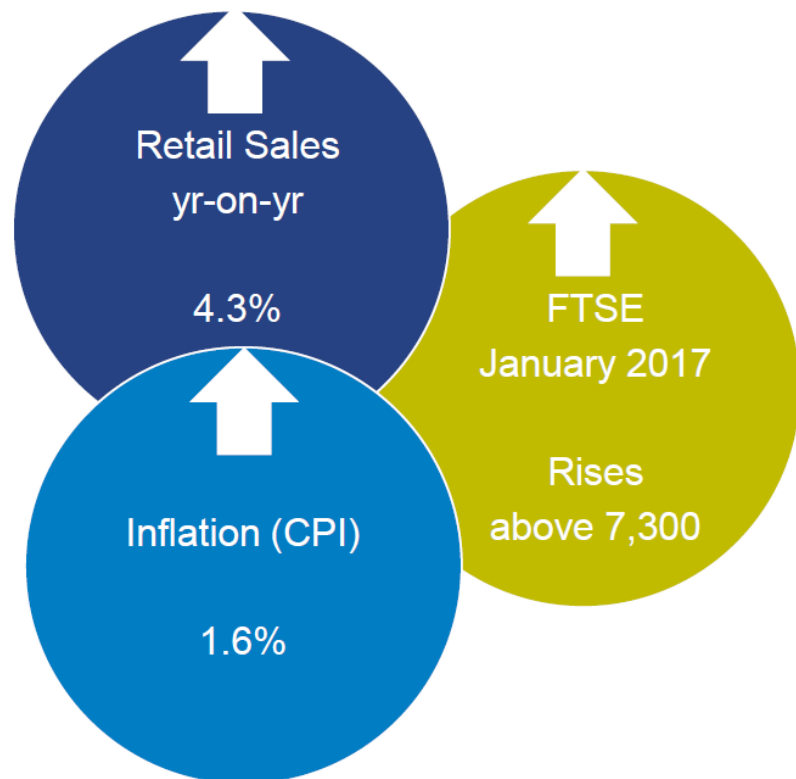
Macro factors impacting Merchants



Economic overview

- Retail sales in December 2016 dropped 1.9% from the previous month, according to official figures. However, compared with a year ago, retail sales were up 4.3% in December 2016
- The annual rate of Consumer Prices Index (CPI) inflation rose to 1.6% in December 2016, up from 1.2% in November 2016. (Office for National Statistics)
- FTSE 100 Record Rally Continues in 2017.

Potential reasons maybe that many companies listed on the FTSE 100 gain their revenues in Dollars rather than Pound Sterling. As the exchange rate between the Pound and Dollar falls, Dollar to Pound increases, which means profits/revenue of the businesses increase. Alternatively the fall in the pound has meant exports have become cheaper and then larger businesses can trade overseas



Macro factors impacting Merchants

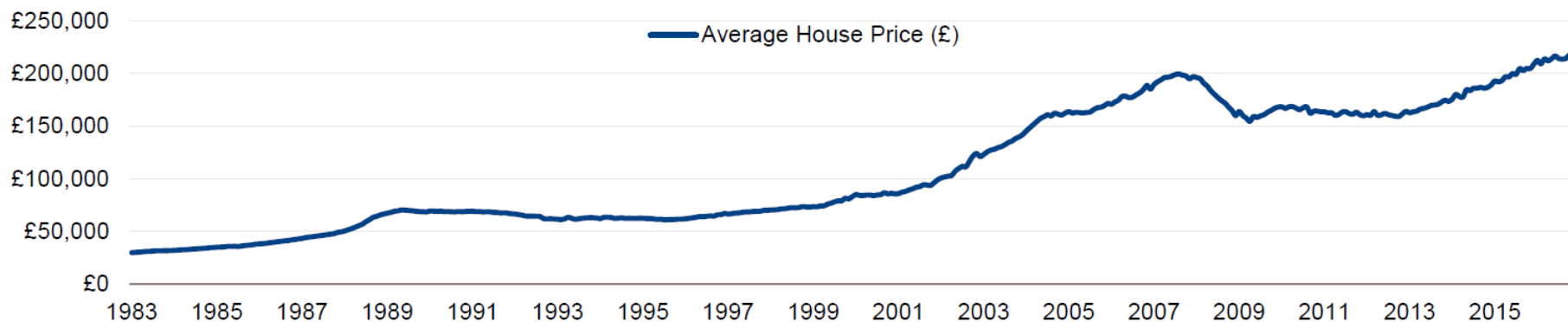


Standardised average house prices

Average Price (year end)		
2000	£84,868	+36%
2005	£163,139	+92%
2010	£168,390	+3%
2013	£174,220	+3%
2014	£189,426	+8%
2015	£208,286	+10%
2016	£222,484	+7%

- The housing market has seen an easing in house price inflation over the last 6 month.
- This follows a period of sustained growth, fuelled by the economic recovery and rising employment

- At the end of December 2016, the average house price in the UK increased to £222,484 from £218,785 in November 2016.



Source: Lloyds Banking Group plc

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Macro factors impacting Merchants



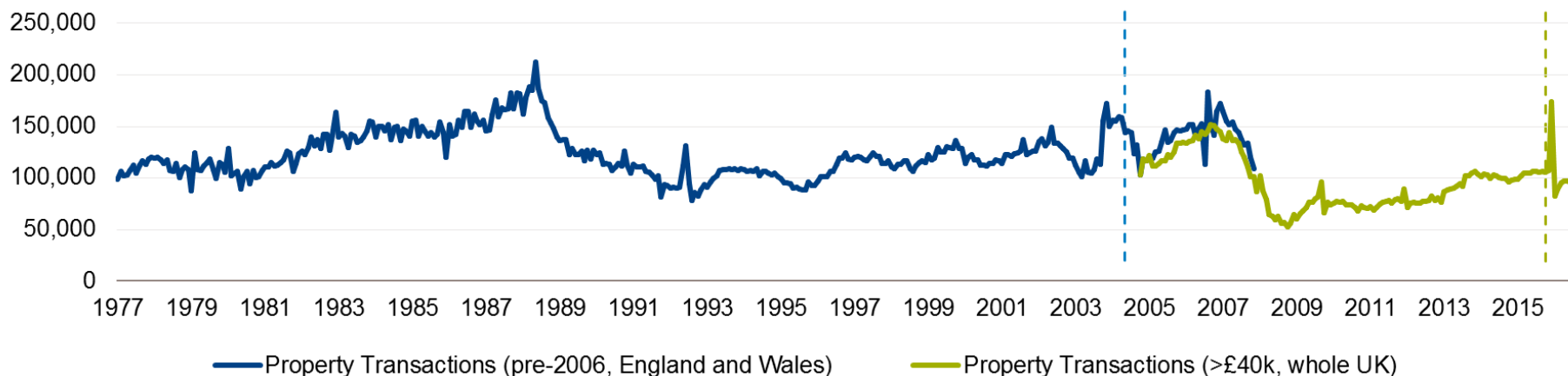
Property transactions

Monthly transactions, residential, seasonally adjusted

Annual total	
2006	1,668,470
2009	847,540
2010	879,050
2011	883,770
2012	932,000
2013	1,067,700
2014	1,223,120
2015	1,228,710

- Stamp duty was altered significantly on 1st December 2003
- April 2016, major changes to the amount of Stamp Duty property investors will have to pay when purchasing a second home or a buy to let property

- Levels of seasonally adjusted property increased by 0.8% in November 2016 compared to the previous month.
- This follows the March/April 2016 peak and fall, as people rushed to beat the new stamp duty changes coming into force in April 2016



Source: HM Revenue & Customs

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Macro factors impacting Merchants



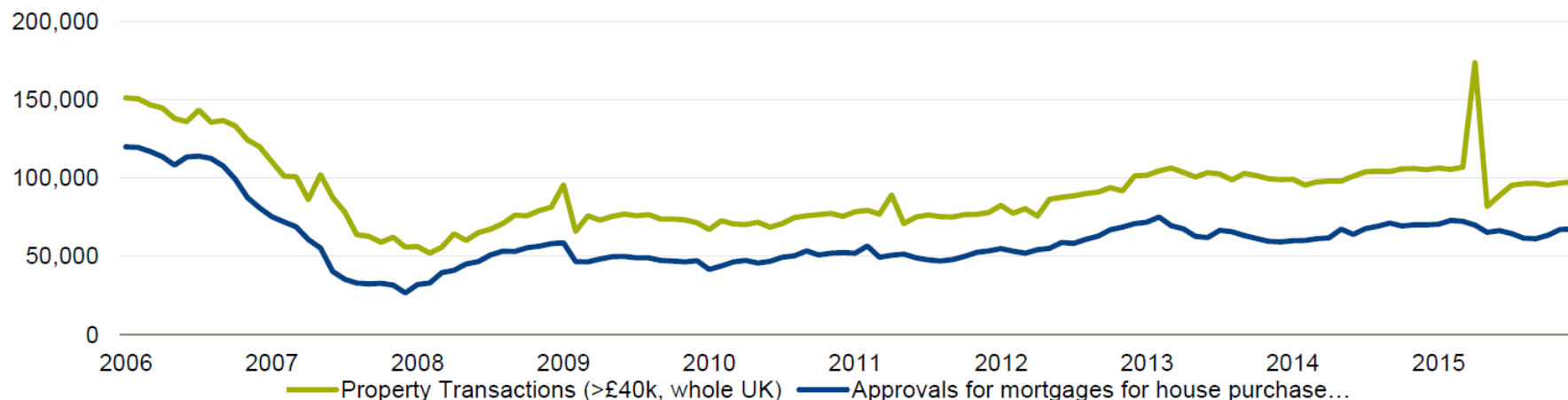
Mortgage approvals and property transactions

Monthly residential transactions and mortgage approvals (seasonally adjusted)

▪ Mortgage approvals for house purchase refers to the firm offers of lenders to advance credit secured on specific dwellings to their customers.

▪ The number of loan approvals for house purchase in the United Kingdom increased to 67,505 in November 2016 from the revised 67,361 thousand in October 2016

▪ The March/April 2016 peak and subsequent fall in property transactions, may be attributed to people rushing to beat the new stamp duty changes coming into force in April 2016



Source: HM Revenue & Customs

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Macro factors impacting Merchants



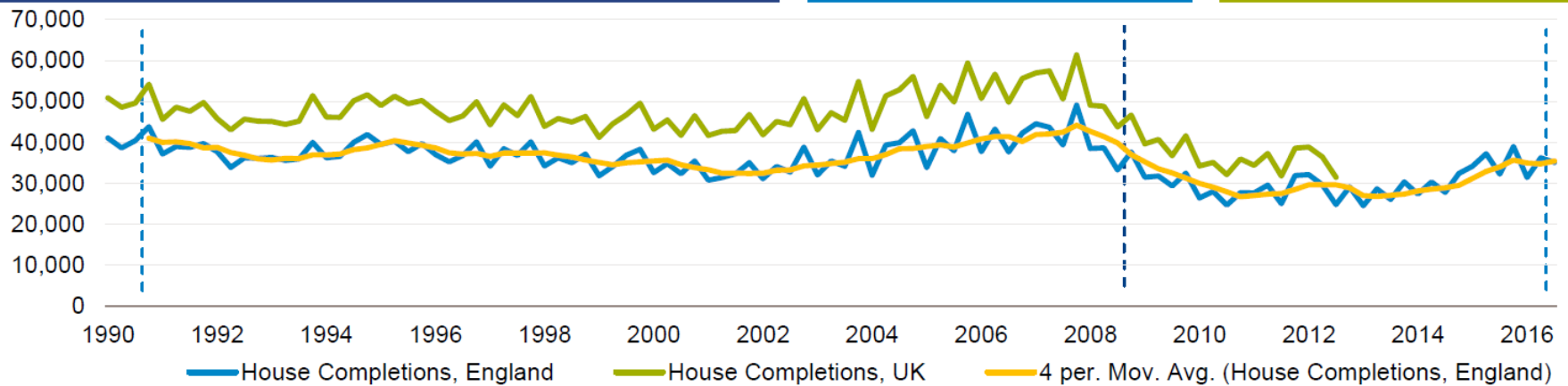
New house builds

Quarterly

Home construction dropped off from the 2007 high, with a large number of construction firms leaving the market. As a result we are now seeing housing price uplifts, as the supply of affordable housing is not meeting current demand

Looking at a 4 period moving average, the recent trend of continued growth has stalled in 2016

In Q3 2016, 35,070 permanent dwellings were completed, compared to a Q3 2015 figures of 32,250 (+8.7%)



Source: GOV.UK

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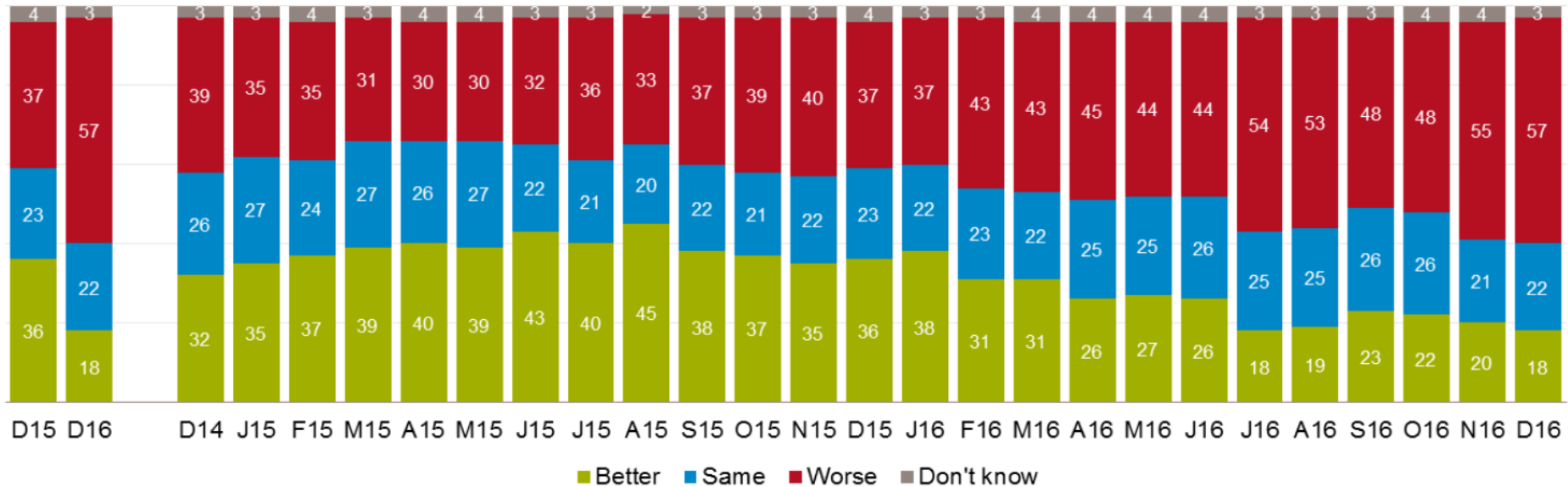
Macro factors impacting Merchants



Consumer Confidence Barometer



How do you think the general economic situation in this country has developed over the last twelve months?



■ Better ■ Same ■ Worse ■ Don't know

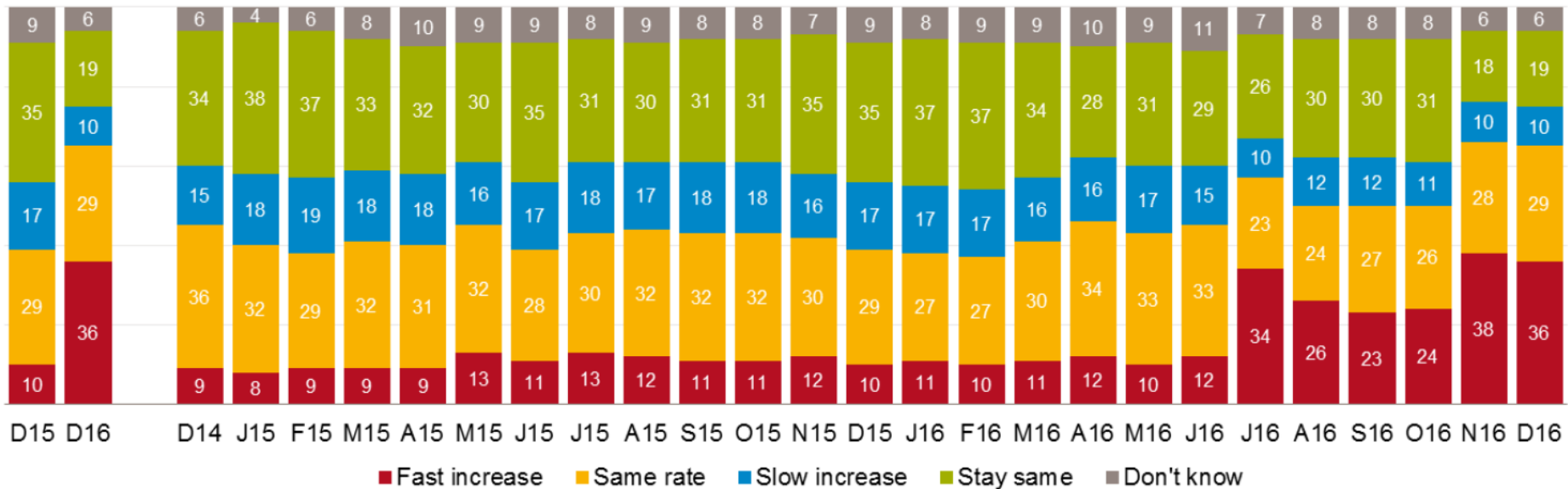
Macro factors impacting Merchants



Consumer Confidence Barometer



How do you think prices will change in the next twelve months compared to now?



Contact Us

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